MULTINATIONAL BCEAO

PROJECT TO REFORM SYSTEM AND MEANS OF PAYMENT IN UEMOA COUNTRIES

APPRAISAL REPORT

INFRASTRUCTURE DEPARTMENT
CENTRE AND WEST REGIONS

OCIN
JULY 2002
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The information given hereunder is intended to provide some guidance to prospective suppliers, contractors, consulting firms and all persons interested in the supply of goods and services for projects approved by the Boards of Directors of the Bank Group. More detailed information may be obtained from the Donor’s Executing Agency.

1. COUNTRY : MULTINATIONAL

2. PROJECT NAME : Project to Reform Systems and Means of Payment in UEMOA Countries

3. LOCATION : UEMOA

4. BORROWER : BCEAO

5 EXECUTING AGENCY : BCEAO
Mission for the Reform of Systems and Means of Payment (Mission pour la Réforme des systèmes et moyens de paiement, MRSMP)
B.P. 3108 –Dakar. Senegal
Tel.: (221) 839 05 00
Fax: (221) 823 93 35
E-mail: mrsmp@bceao.int

6. PROJECT DESCRIPTION

The proposed project comprises the following components:

A. Real-time gross settlement system (RTGS)
B. High volume compensation system (Compensation)
C. Establishment of an interbank card system (Electronic Money)
D. Upgrading of telecommunications infrastructure
E. Project Management

7. PROJECT COST : UA 20.71 million
   i) Foreign exchange : UA 17.14 million
   ii) Local currency : UA 3.57 million

8. BANK GROUP FINANCING
   ADF loan : UA 6.20 million

9. OTHER SOURCES OF FINANCE
   IDA : UA 6.47 million
   BCEAO : UA 5.96 million
   Commercial banks : UA 2.08 million
10. DATE OF LOAN APPROVAL : September 2002

11. START-UP DATE AND DURATION OF PROJECT : June 2001 and 48 months

ADF COMPONENT : October 2002 and 33 months

12. PROCUREMENT OF GOODS, WORKS AND SERVICES

Goods: Goods financed by the project comprise computer equipment and software for the RTGS and Compensation components, as well as the procurement and installation of radio loop links of the Telecommunications component. They will be procured through international competitive bidding. Three contracts will be awarded for the procurement of radio loop links for UA 1.34 million, the Settlement/Delivery software for UA 2.30 million, and servers for UA 0.76 million respectively.

Services: Consultancy services for the RTGS, Compensation and Electronic Money components will be procured through competitive bidding on the basis of a short list.

13. CONSULTANCY SERVICES REQUIRED

The services of a consulting firm will be required for (i) the conduct of supplementary studies on the electronic purse; (ii) the definition of transitional plans towards exchange of scanned images; (iii) the preparation of technical specifications for the electronic card payment system, and (iv) assistance for the establishment of the Settlement/Delivery system.

14. ENVIRONMENTAL CATEGORY : 3
CURRENCIES AND MEASURES

Currency Unit :  CFA Franc

UA 1 = CFAF 874.915 (July 2002)

Measures :  Metric System

LIST OF ABBREVIATIONS

ACD :  Automatic Cash Dispenser
ADB :  African Development Bank
ADF :  African Development Fund
AFRITAC :  African Technical Assistance Center
BCEAO :  Central Bank of West African States
BIS :  Bank for International Settlements
BOAD :  West African Development Bank
BRVM :  Regional Stock Exchange (Bourse Régionale des Valeurs Mobilières)
CCP :  Consultative Committee on Payments
CIP :  Centralization of Incidents of Payment
COMPENS :  Compensation
CTM :  Electronic Money Processing Center
ECC :  Electronic Cash Card
GDP :  Gross Domestic Product
HCPI :  Harmonized Consumer Price Index
ICB :  International Competitive Bidding
IDA :  International Development Agency
IMF :  International Monetary Fund
MPRSMP :  Mission for the Project to Reform Systems and Means of Payment
(अनुप्रेरणा प्रक्रिया में सिस्टम और मέθodes de Paiements)
NEPAD :  New Partnership for Africa’s Development
OHADA :  Organization for Harmonization of Business Law (Organisation pour l’Harmonisation du Droit des Affaires)
PARSTAT :  Regional Statistics Support Programme
FISAP :  Financial Sector Adjustment Programme
PCB :  Bank Accounting Plan
POST :  Point of Sale Terminal
RTGS :  Real-time Gross Settlement
RMC :  Regional Member Countries
SGI :  Management and Intermediation Company
SYSCOA :  West African Accounting System
UA :  Unit of Account
UEMOA :  West African Economic and Monetary Union
UMOA :  West African Monetary Union
WTO :  World Trade Organization

FISCAL YEAR
1 January - 31 December
### Fact Sheet for Countries of the Sub-region: Major Basic Indicators for 1999 and 2000

<table>
<thead>
<tr>
<th>Area (in km²)</th>
<th>Benin</th>
<th>Burkina</th>
<th>Côte d'Ivoire</th>
<th>Guinea Bissau</th>
<th>Mali</th>
<th>Niger</th>
<th>Senegal</th>
<th>Togo</th>
<th>UEMOA</th>
</tr>
</thead>
<tbody>
<tr>
<td>115732</td>
<td>274000</td>
<td>322640</td>
<td>36125</td>
<td>1240192</td>
<td>1267000</td>
<td>193000</td>
<td>56785</td>
<td>3505474</td>
<td></td>
</tr>
<tr>
<td>Total population (millions) (2000)</td>
<td>6.2</td>
<td>11.8</td>
<td>16.4</td>
<td>1.2</td>
<td>10</td>
<td>10.6</td>
<td>9.4</td>
<td>4.6</td>
<td>70.2</td>
</tr>
<tr>
<td>Population density (inhabitants/Km²)</td>
<td>55.3</td>
<td>40.2</td>
<td>48.9</td>
<td>42.1</td>
<td>8.7</td>
<td>8.3</td>
<td>48.2</td>
<td>84</td>
<td>20</td>
</tr>
<tr>
<td>Annual population growth rate (%)</td>
<td>2.7</td>
<td>2.6</td>
<td>3.5</td>
<td>2.8</td>
<td>2.4</td>
<td>3.2</td>
<td>2.8</td>
<td>2.9</td>
<td>NA</td>
</tr>
<tr>
<td>Urban population (% total population)</td>
<td>41.5</td>
<td>18</td>
<td>45.8</td>
<td>23.3</td>
<td>29.4</td>
<td>20.1</td>
<td>46.7</td>
<td>32.8</td>
<td>35.1</td>
</tr>
<tr>
<td>Rural Population (% total population)</td>
<td>58.5</td>
<td>82</td>
<td>54.2</td>
<td>76.7</td>
<td>70.6</td>
<td>79.9</td>
<td>53.3</td>
<td>67.2</td>
<td>67.9</td>
</tr>
<tr>
<td>Female population 15-49 years (% of total population)</td>
<td>24.1</td>
<td>23.0</td>
<td>23.1</td>
<td>25.0</td>
<td>22.4</td>
<td>22.8</td>
<td>23.3</td>
<td>22.7</td>
<td>23.1</td>
</tr>
<tr>
<td>Below 15 years (%) (1999)</td>
<td>46.6</td>
<td>48.7</td>
<td>44.8</td>
<td>41.7</td>
<td>47.7</td>
<td>49.5</td>
<td>45.6</td>
<td>47.7</td>
<td>47.0</td>
</tr>
<tr>
<td>15 to 64 years (%) (1999)</td>
<td>51.7</td>
<td>51.3</td>
<td>54.5</td>
<td>50.0</td>
<td>51.4</td>
<td>50.5</td>
<td>54.4</td>
<td>52.3</td>
<td>52.4</td>
</tr>
<tr>
<td>Life expectancy at birth (years)</td>
<td>7.1</td>
<td>79.9</td>
<td>54.3</td>
<td>62.3</td>
<td>60.2</td>
<td>84.5</td>
<td>63.5</td>
<td>43.9</td>
<td></td>
</tr>
<tr>
<td>Gross enrolment rate (%) (1996)</td>
<td>78.0</td>
<td>40.0</td>
<td>71.3</td>
<td>69.5</td>
<td>45.1</td>
<td>29.0</td>
<td>68.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Macroeconomic Indicators (2000)

| GDP growth rate in real terms (%) | 5.0 | 2.2 | -2.3 | 7.5 | 4.3 | 2.9 | 5.5 | -0.4 | 1.4 |
| GDP per capita (CFAF) | 258,081 | 134,500 | 406,756 | 127,833 | 179,980 | 111,755 | 311,223 | 192,783 | 253,077 |
| Average annual inflation rate (%) | 4.2 | -0.3 | 2.5 | 8.6 | -0.7 | 2.9 | 0.7 | 1.9 | 1.8 |
| National savings rate (% of nominal GDP)* | -1.0 | -12.9 | -1.9 | -22.1 | -9.5 | -6.2 | -2.4 | -5.8 | -4.4 |
| Investment rate (% of nominal GDP) | 19.8 | 27.9 | 11.9 | 25.1 | 21.1 | 20.7 | 19.9 | 15.1 | 17.5 |
| Import/export (%) | 145.7 | 252.7 | 55.7 | 79.2 | 114.3 | 110.9 | 134.2 | 136.6 | 89.3 |
| External debt service (% of exports) | 7.1 | 25.4 | 21.5 | 51.8 | 10.8 | 27.4 | 10.9 | 17.5 | 17.9 |
| Money supply (M2) (CFAF billion) | 480 | 419.6 | 164.6 | 64.0 | 408.5 | 103.2 | 790.4 | 246.6 | 4252.6 |
| Velocity of circulation of money (nominal GDP/M2) | 3.3 | 3.8 | 4.1 | 2.4 | 4.4 | 11.5 | 3.9 | 3.6 | 4.0 |
| Number of banks | 6 | 7 | 16 | 3 | 9 | 7 | 10 | 7 | 66 |
| Number of decentralized financial systems | 14 | 21 | 15 | n.a. | 33 | 9 | 29 | 35 | 156 |
| Number of financial institutions | 2 | 5 | 6 | 0 | 4 | 1 | 4 | 4 | 28 |
| Extension rate of banking services (number of accounts/working population) (%) | 4.25 | 3.10 | 13.43 | n.s. | 4.28 | 3.29 | 11.85 | 6.31 | 6.65 |
| Number of windows (permanent and periodic) | 26 | 159 | 167 | 6 | 66 | 18 | 68 | 83 | 593 |

(*) Overall balance excluding grants = Total revenue excl. grants total expenditure

**Sources:**
- BCEAO activity reports
- UEMOA Internet Site (Multilateral Surveillance Report/July 2001)
- BCEAO Internet Site (situation of the UEMOA banking system at the end of September 2000)
- World Bank Internet Site (World Development Indicators, July 2000)
## PROJECT LOGICAL FRAMEWORK

### SECTOR GOAL:
1. Promote the growth and economic integration of UEMOA countries by upgrading the basic infrastructure of the financial sector
   - 1.1 Increase in trade between and within member countries
   - 1.2 The MS/GDP ratio reaches 26% as from 2004
   - 1.3 The annual increase in private investments reaches 15% in countries of the zone

### PROJECT OBJECTIVES:
2.1. Establish a set of national and regional payment mechanisms to meet the growing needs of economic sectors
   - 2.1.1 The increase in scriptural currency transactions exceeds 10% as from 2005
   - 2.1.2 Financial transactions are carried out in real time as from 2005
   - 2.1.3 Beneficiaries are satisfied with the new system

### PROJECT OUTPUTS:
3.1. Real-time settlement system
   - 3.1.1 90 % of payments are made in less than 15 mn as from 2005
   - 3.1.2 Payment orders reach the system in less than 30 mn
   - 3.1.3 Rejections are less than 1%
   - 3.2.1 Clearing time reduces from 15 to 2 days for out-of-town securities and from 25 to 3 days for cross-border securities as from 2004
   - 3.2.2 The cost of transactions reduces by 25% in 2004
   - 3.3.1 The number of electronic cash cards in circulation reaches 800,000 in 2004
   - 3.4.1 Availability of the network reaches 95% with response time less than 1 sec.

### RESOURCES

<table>
<thead>
<tr>
<th>RESOURCE</th>
<th>SOURCE</th>
<th>UA Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA</td>
<td></td>
<td>6.47</td>
</tr>
<tr>
<td>ADP</td>
<td></td>
<td>6.20</td>
</tr>
<tr>
<td>BCEAO</td>
<td></td>
<td>5.96</td>
</tr>
<tr>
<td>Commercial banks</td>
<td></td>
<td>2.04</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>20.71</td>
</tr>
</tbody>
</table>

### IMPACT ON MAJOR OBJECTIVE:
1. Macroeconomic stability is ensured and maintained in the region
2. The policy of regional integration is pursued

### IMPACT ON SECTOR GOAL:
1. Commercial banks make the investments required for putting the system in place
2. Appropriate laws and regulations that conform with the UEMOA community regulations are adopted by the countries
3. The confidence of economic operators in the system increases

### IMPACT ON PROJECT OBJECTIVES:

### IMPACT ON OUTPUTS:

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### HIERARCHY OF OBJECTIVES (HO)

<table>
<thead>
<tr>
<th>OBJECTIVELY VERIFIABLE INDICATORS (OVI)</th>
<th>MEANS OF VERIFICATION (MOV)</th>
<th>MAJOR ASSUMPTIONS/RISKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Increase in trade between and within member countries</td>
<td>National and regional statistics BCEAO reports</td>
<td></td>
</tr>
<tr>
<td>1.2 The MS/GDP ratio reaches 26% as from 2004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.3 The annual increase in private investments reaches 15% in countries of the zone</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1.1 The increase in scriptural currency transactions exceeds 10% as from 2005</td>
<td>Reports and statistics of BCEAO and commercial banks, national statistics, supervision mission</td>
<td></td>
</tr>
<tr>
<td>2.1.2 Financial transactions are carried out in real time as from 2005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1.3 Beneficiaries are satisfied with the new system</td>
<td></td>
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</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

1. PROJECT ORIGIN AND BACKGROUND

The Project to Reform Systems and Means of Payment in UEMOA Countries was formulated following design and technical studies conducted by a consulting firm and validated by a Committee of International Experts set up by BCEAO, with the collaboration of the International Monetary Fund and the World Bank. It will supplement the financial sector reforms undertaken in member countries following the economic crisis in the early 80s, as well as inappropriate macro-economic policies and poor management of banks. In fact, the implementation of a modern system of payment, using advanced technology, should contribute to promoting scriptural currency operations, strengthening of banks, extending the regional financial sector and, generally speaking, closer regional integration and development of trade and investment within and between member countries. After a presentation of the project at the Bank’s headquarters, the BCEAO submitted a request for the financing of additional requirements for the implementation of the said project which started in 2001, with IDA financing. A Bank mission went to Senegal in June 2002 to appraise the project.

2. PURPOSE OF THE LOAN

The ADF loan, amounting to UA 6.20 million, will cover 30% of the total project cost, representing 35% of the foreign exchange costs and 9% local currency costs.

3. PROJECT OBJECTIVE

The sector goal of the project is to promote the growth and economic integration of UEMOA countries by upgrading basic infrastructure in the financial sector. Specifically, its objective is to establish a set of national and regional payment mechanisms, so as to (i) satisfy the growing needs of all economic sectors in UEMOA, in a sure, sound, secure, timely manner and at reasonable cost; and (ii) ensure that the new payment systems meet international standards and comply with basic principles, and consequently, guarantee a high level of consumer confidence in UEMOA financial systems.

4. PROJECT OUTPUTS

The main project outputs are as follows:

i) the establishment of a real-time settlement system for large amount transactions (RTGS);
ii) the establishment of a new clearing system for bulk payments of small amounts;
iii) the design of an interbank card payments system in UEMOA;
iv) the establishment of a high quality, efficient and performing telecommunications system at the regional level with the upgrading of the existing system; and
v) the implementation of training and studies programmes on the electronic cash card.

5. PROJECT COSTS

The project cost estimates, exclusive of tax and customs duty, amount to CFAF 18.12 billion, or UA 20.71 million. Foreign exchange will cover 83% of the total cost (UA 17.14 million) and local currency 17% (UA 3.57 million).
6. SOURCES OF FINANCE

The project is financed jointly by IDA, ADF, BCEAO and commercial banks. ADF contribution amounts to UA 6.20 million, or 30% of the total project cost.

7. PROJECT IMPLEMENTATION

The Executing Agency of the project is the Central Bank of West African States (BCEAO), within which a Mission for the Reform of Systems and Means of Payment (MRSMP), the project implementation unit, has been established.

8. CONCLUSIONS AND RECOMMENDATIONS

The project to reform systems and means of payment in UEMOA countries was prepared and appraised through a participatory process. It is technically feasible, economically profitable, and socially beneficial. The micro and macro-economic benefits of developing an efficient system of payment are very significant in terms of (i) promotion of economic activity; (ii) improved efficiency of the monetary policy; (iii) development of the financial sector; (iv) improvement of cash management; and (v) reduced risks for BCEAO and the financial system in general.

The project will supplement the measures taken to liberalize and modernize monetary policy instruments applied in the Zone. It is in line with the economic integration strategy for UEMOA member States. It will contribute to improving capital flow, extending banking services in the economies, and promoting the flow of trade. In view of its objectives to improve financial and monetary management, and the importance of its infrastructure component, it is consistent with the New Partnership for Africa’s Development (NEPAD). More especially, it is in line with the Bank’s policy for the financing of multilateral projects in that it will have a significant positive impact on the strengthening of regional cooperation and economic integration between member countries. Lastly, with the implementation of a similar project in the central African zone, the bases for strengthening financial systems throughout the CFA franc zone will be firmly established. It is recommended that an ADF loan not exceeding UA 6.20 million should be granted to the Central Bank of West African States (BCEAO) to implement the project described in this report, subject to fulfillment of the conditions defined in the loan agreement.
1. PROJECT ORIGIN AND BACKGROUND

1.1 In the 1980s, several member countries of the West African Monetary Union (UMOA) experienced economic crisis and decline due to inappropriate macroeconomic policies and poor management of banks most of which operated in the public sector. The devaluation of the CFA franc in 1994, in conjunction with economic reform programmes, helped to restore sound growth geared towards exports in most countries of the zone. Deep financial sector reform programmes were also implemented in those countries, including the privatization of banks and reinforcement of control by the Banking Commission. At the regional level, the policies aimed primarily at building a really integrated and competitive regional economy.

1.2 However, the current payment system remains an obstacle to the development of business and banking services in the UEMOA zone. It is slow, cumbersome and costly for all users. It is a serious handicap for the efficient implementation of measures to liberalize and modernize the monetary policy instruments applied within UEMOA. The inefficiency and unreliability of the current system of payment thwart efforts made to establish a capital market and a State securities market at the regional level. An improvement in this area should increase competition, improve services and reduce costs of transactions in financial institutions, which would then be able to prepare new products and procure new sources of income in the form of charges (bank card services, transfer of funds from banks).

1.3 Furthermore, until recently, the status of telecommunications has been a serious handicap for the development of an efficient system of payment. However, the privatization process in this sector, initiated in most of the countries, has contributed to improving the reliability of services and reducing costs. In the past few years, the banks in the zone have made considerable investments in the development of information technologies. The Central Bank of West African States (BCEAO) recently established its own satellite communication network to connect eight main agencies and its fifteen subsidiary agencies in UEMOA countries.

1.4 Formulated following the design and technical studies, and validated by a Committee of International Experts set up by the BCEAO with the assistance of the World Bank and the International Monetary Fund (FMI), the Project to Reform Systems and Means of Payment within UEMOA will supplement the financial sector reforms undertaken in member countries. In fact, the implementation of a system of payment for the entire zone using advanced technology should contribute to the promotion of bank operations, strengthening of banks, extension of the regional financial sector and, generally speaking, closer regional integration and development of trade and investments within and between member countries. Similarly, a good system of payment is an essential mechanism for an efficient financial sector, and plays an important role in reducing systemic, credit and liquidity risks. In view of its objectives, this project is consistent with the new Bank vision, which makes economic integration one of its major concerns.

1.5 The BCEAO submitted the first request in May 2000 for the Bank to participate in the financing of this project. The Bank expressed its interest in the project. In March 2002, following a meeting to present the project at the Bank’s headquarters, the BCEAO submitted another request for the financing of additional requirements for the implementation of the said project, which had started in June 2001 with World Bank financing. A Bank mission went to Senegal in June 2002 to appraise this project. This appraisal report is based on the results of the analysis of information available in the Bank, and discussions held with the Project Unit, commercial banks, and donors during the mission.
2. THE ECONOMIC AND FINANCIAL ENVIRONMENT

2.1 Presentation of the West African Economic and Monetary Union (UEMOA)

2.1.1 The West African Economic and Monetary Union (UEMOA) was established in January 1994, as an extension of the West African Monetary Union (UMOA), which had been existing since 1962. It comprises the seven West African countries which are members of the Franc Zone and use the CFA franc: Benin, Burkina Faso, Côte d’Ivoire, Mali, Niger, Senegal, and Togo, with Guinea Bissau joining the group following its membership of the franc Zone in May 1997.

2.1.2 The decision to become the Economic and Monetary Union with wider competence stems mainly from the desire of the countries to broaden the bases of their cooperation to other areas of economic activity. Under the 1994 treaty, UEMOA member countries defined five major objectives, in particular: (i) strengthening the competitiveness of economic and financial activities of member States in an open and competitive market and a rationalized and harmonized legal environment; (ii) convergence of performance and economic policies; (iii) creation of a common market based on the free movement of persons, goods and capital, the right of establishment for persons as well as a common external tariff and common trade policy; (iv) coordination of national sectoral policies and harmonization of the legislations of member States, particularly the fiscal system.

2.1.3 To achieve these objectives, UEMOA relies on the following institutions: the Conference of heads of State and Government, the Council of Ministers, the Commission, the Court of Justice, the Court of Auditors and the Interparliamentary Committee, and the Regional Consular Chamber. In addition to these bodies, there are also the following specialized institutions: the BCEAO, the West African Development Bank (BOAD), the Banking Commission, and the Regional Savings and Financial Markets Council. The establishment of the Interparliamentary Committee and Regional Consular Chamber in 1998 marked the completion of the institutional mechanism of UEMOA.

2.1.4 The UEMOA Council of Ministers defines the objectives of the monetary policy, the overall management of which is the responsibility of the BCEAO, the common issuing institution for the eight (8) member States of the Union. It is an international public institution. In addition to issuing paper money in the member States for which it has the exclusive privilege, the BCEAO is responsible for: (i) pooling the foreign exchange reserves of the Union; (ii) managing the monetary policy of the member States; and (iii) keeping the accounts of the Treasuries of the Union. A detailed presentation of the BCEAO is given in point 3.11.

2.2 Recent Economic and Structural Trend in the Zone

2.2.1 Growth: After recording a growth rate of about 5% over the 1994-1998 period, economic activity slowed down from 3.4% in 1999 to 1.5% in 2000 and 2.2% in 2001. The per capita growth rate dropped from 2.6% over the 1994-1998 period to 0.6% over the 1999-2001 period. This slowdown is due to: (i) the decline in the price of exported raw materials, (ii) the increase in oil prices, and (iii) the drought which hit some countries in the Union. This situation was aggravated in some cases by the lack of a programme with the Bretton Woods institutions, which slowed down the inflow of external assistance and made it difficult to pursue reforms. Furthermore, socio-political tensions in Côte d’Ivoire had negative effects in the sub-region.
2.2.2  **Public Finance:** The budget deficit (commitment base and excluding grants) recorded a downward trend, from 5.4% of GDP in 1999 to 4.1% in 2000 and 4.3% in 2001. The deficit was partially financed by an accumulation of internal and external arrear payments, particularly in Côte d’Ivoire and Togo.

2.2.3  **Money and Inflation:** At the monetary level, the net external position of monetary institutions increased by CFAF 69.1 billion to CFAF 1,504.4 billion in 2000. The BCEAO in June 2000 raised its prime rate by three quarters of a percentage point. The bank legal reserve ratios were also reinforced; they ranged from 3% to 9% depending on the State and taking into account the economic, financial and monetary trend and the need to better control liquidity and bank application of funds. As for inflation, it exceeded the community standard of 3% over the 1994-1998 period; it was brought under control from 1999 to 2000, but remained slightly above the standard in 2001 (3.1%). Such performance is due to the prudent monetary policy which, for example, helped to raise the money issue coverage rate by 103.8% in 2000 as against 103.4% in 1999.

2.2.4  **The balance of payments** recorded a surplus of CFAF 185.6 billion in 2000, as against a deficit of CFAF 22.3 billion in 1999, mainly as a result of the favourable trend of the capital and financial operations account and the balance of unrequited transfers, in conjunction with the high level of exceptional financing, capital inflow for portfolio investments, and official transfers.

2.2.5  **Public Debt:** As regards external debt, the ratio of its outstanding debts to GDP improved from 102.5% in 1998 and 1999 to 90.5% in 2000. The debt service/exports ratio was 17.4% in 1998 and 1999 and 18.8% in 2000. The domestic debt accounts for 14.2% of GDP. Most of these countries have been declared eligible for the HIPC initiative. Côte d’Ivoire could be eligible in 2002; however, it needs to make internal efforts to reach the completion point and benefit from debt relief. This would also enable governments to better tackle the problems of poverty, which jeopardize the economic prospects of the sub-region.

2.2.6  **Surveillance of Macro-economic Policies:** The convergence criteria were defined in 1999, and are being monitored. The standards need to be met by the end of 2002. Monitoring the indicators requires harmonization and improvement of statistical information. To that end, the guidelines defining the basic principles to govern finance laws and the general public accounting regulations were adopted, and their implementation should be effective as from 2002. To foster transparency in public finance, a Court of Auditors was established; it has been operating since March 1998. Furthermore, UEMOA adopted a harmonized consumer price index (HCPI) which has been published in the member States. In addition, a Regional Statistics Support Programme (PARSTAT), aimed at harmonizing national accounts, is gradually coming into force. Lastly, a Technical Assistance Center (AFRITAC) in money, public finance and statistics will be opened in October 2002 in Abidjan for the Union countries and Guinea.

2.3  **Money and Credit Policy**

2.3.1  The money and credit policy defined by the UEMOA Council of Ministers, laid emphasis on (i) pursuance of rigorous management of money; and (ii) ensuring closer convergence of policies and better macro-economic performance, so as to achieve economic and monetary stability that would consolidate the attachment of the CFA franc to the Euro and institution of the Customs Union. The monetary policy is based on the use of indirect instruments to contribute to the control of inflationary pressure, the consolidation of savings and increase in foreign exchange reserves. In this light, priority will be given to moderating the expansion rate of bank financing and surveillance of the quality of their portfolio, improving the
functioning of the money market, developing a dynamic public debt securities market, intensifying sensitization activities for the repatriation of the foreign assets of banks, and reducing the outstanding assistance granted by BCEAO to public treasuries.

2.3.2 The main objective of this monetary policy is to ensure price stability and safeguard the domestic and foreign value of the CFA franc through appropriate coverage of currency issue by foreign exchange reserves. To that end, the BCEAO has defined a rational strategy based on (i) an interest rate policy aimed at ensuring price stability through regulation of demand for money, promotion of savings and optimal recycling of available liquidities in the Union so as to reduce pressure on the central bank money; (ii) a reserve requirement policy marked by reinforcement of the basis of seasonal credits and gross bank assets abroad; (iii) a Classification Agreements mechanism for a posteriori control of the quality of signatures in the banks’ portfolio; and (iv) securing of its consolidated debts with the States so as to neutralize the bulk of liquidity surpluses of UEMOA banks.

2.3.3 The BCEAO also subscribes to the principles underlying the Good Practices Code for transparency of monetary and financial policies, adopted by the IMF Interim Committee in September 1999 and which recommends that central banks should, at the proper time, provide the public with adequate information on the objectives of their action, their legal, institutional and economic framework, as well as on the various related activities and their justification. To that end, it endeavoured to improve the readability of its monetary policy and information to the public on its mission, objectives, major activities and decisions.

3 THE REGIONAL BANKING AND FINANCIAL SECTOR

3.1 General

3.1.1 The law regulating banking services in force in the Union defines two types of institutions, namely banks and financial institutions. Generally speaking, the Central Bank, international financial institutions, public aid and cooperation institutions, and Posts and Telecommunication Authorities are excluded from its scope of application. Similarly, insurance companies, withdrawal agencies and foreign exchange agents are not considered as financial institutions.

3.1.2 Banks and financial institutions are the priority partners of the Central Bank, and the essential vectors of its monetary policy. As a currency-issuing institution and monetary authority, the BCEAO maintains diversified relations with banks and financial institutions operating in the member States, in its surveillance of the banking system as well as in the distribution and control of credit.

3.2 Organization of the Sector

3.2.1 The banks and financial institutions of the Union are controlled by the Banking Commission, a community body, in conjunction with the BCEAO. In accordance with the provisions of the Convention of 24 April 1990 establishing the Banking Commission, it is responsible, in particular, for organizing and controlling banks and financial institutions. To that end, it controls or ensures that controls are carried out on documents or on site in credit institutions to ensure compliance with the applicable rules. It gives recommendation for the approval of banks or financial institutions. To accomplish this mission, it has broad powers to issue administrative and disciplinary sanctions for any breach of banking regulations. In certain circumstances, it may also propose the appointment of provisional executive directors or liquidators for banks and financial institutions.
3.2.2 The Regional Stock Exchange (BRVM) is the stock market for the sub-region. It started operating in September 1998. It is located in Abidjan and has a branch in each capital town of the other member States of the Union. Its main role is to pool and process stock market orders transmitted by the major actors of the stock market, which are the Management and Intermediation Companies (SGI). The BRVM has begun offering some opportunities. The issue of bonds makes it possible to obtain long-term resources in a zone marked by a negative savings rate (-4.4 %). However, credit institutions do not always consider the bond market as an instrument for cash management because of its low liquidity, significant operational constraints and regulations governing equity ownership.

3.2.3 As at 30 September 2001, the banking and financial system of the Union had 66 banks and 26 financial non-banking institutions with valid licenses. The distribution, by State, is given in the table below:

<table>
<thead>
<tr>
<th>Bank</th>
<th>Financial Institutions</th>
<th>Total</th>
<th>Number of Windows (*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benin</td>
<td>6</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>Burkina</td>
<td>7</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Côte d'Ivoire</td>
<td>16</td>
<td>6</td>
<td>23</td>
</tr>
<tr>
<td>Guinea-Bissau</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Mali</td>
<td>9</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Niger</td>
<td>7</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Senegal</td>
<td>11</td>
<td>4</td>
<td>14</td>
</tr>
<tr>
<td>Togo</td>
<td>7</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>TOTAL UEMOA</td>
<td>66</td>
<td>26</td>
<td>92</td>
</tr>
</tbody>
</table>

(*) Permanent and periodic windows
Source: BCEAO

3.2.4 The banks of the Union are classified under two categories: (i) all-purpose banks represent nearly 80% of the banks, control nearly 84% of the total assets of the banking system, and operate nearly 55% of all the windows; (ii) banks specialized in the financing of agriculture, housing and industry represent only 20% of the total number, control less than 15% of the total assets of the banking system, but operate nearly 45% of all the windows.

3.2.5 The financial institutions operate according to their type of license, and are divided into two major groups. The financing of sale on credit or financial lease comprises 19 institutions, while savings and investments concern 7 institutions.

3.2.6 The total balance sheets of institutions in operation amount to CFAF 4560.0 billion. The resources of banks and financial institutions amount to CFAF 3886.6 billion including CFAF 385.6 billion as net equity capital. Applications of funds amount to CFAF 3771.8 billion, with 74% as credits to customers. The foreign or regional bank branches and subsidiaries play a relatively important role in financial intermediation in UEMOA. Seven major groups dominate the banking system of the Union, through 34 banks and financial institutions. Their total balance sheets amount to more than 60% of the total balance sheets of the banking system in the zone.
3.2.7 Thirteen banks in the Union may be considered as large institutions with more than CFAF 100 billion of individual balance sheets. They have 227 branches and offices (or 44% of the windows), account for 61% of the assets, and control 59% of the banking market. The banking system also has thirteen medium-size institutions, with individual balance sheets ranging from CFAF 50 billion to CFAF 100 billion. These institutions, which are completely banking institutions, have 85 windows and control 20% of the total assets. Fifty-eight small institutions, all of them financial institutions, have individual balance sheets below CFAF 50 billion, operate a network of 206 windows, and possess 19% of the total assets.

3.2.8 With 593 windows as at 30 September 2001 and about 2 million account holders out of more than 70 million inhabitants, of whom 28 million constitute the working population, UEMOA countries have one of the lowest bank coverage rates (6.65%).

3.3 Characteristics of the Banking Sector in the Zone

An analysis of the sector shows the following major characteristics:

- The credit institutions are mostly concentrated in the urban areas, thereby providing services to less than 30% of the total population of the Union. The rural areas, which account for nearly 70% of the total population, find it difficult to obtain services from these credit institutions, hence the very low use of bank services by this population, and the high use of fiduciary money.

- Access to banking and financial services is very difficult. In fact, there are very few windows in the countries of the sub-region, the number of persons per window is above 150,000, whereas in some developed countries there are 100 persons per window.

- The distribution of credit institutions throughout the Union is very unequal. Côte d’Ivoire (42.6%), Senegal (19.7%) and Mali (10.2%) occupy the largest portion of the financial market in the sub-region.

3.4 General Trend of Means of Payment

3.4.1 Most monetary transactions are conducted with fiduciary money. The ratio of fiduciary currency to the money supply is above 30% as against 15% in the European Union countries. This high use of fiduciary money is mainly due to the feeling of insecurity among the population since the banking system crisis in the 1980s which requires that a person should constantly keep an amount of cash as precaution. It is also due to the socio-economic situation of the countries with low levels of income, inadequate literacy rate, undeveloped financial and banking culture, very low bank coverage rate, and poor state of communication networks. This situation may also be due to the limited variety of payment instruments used in the zone, even though the diversity is being consolidated with time.

3.4.2 Checks constitute the most widely used means of payment after fiduciary money. It concerns more than 5 million operations per year, and accounts for 73% of the total bank money payments. Checks account for a significant percentage of frauds and outstanding payments, and this greatly limits its acceptance, especially in general commercial activities. However, it is partially secured by the establishment of a Payment Incidents Pooling Center (CIP) in the Union. The check management circuit is still cumbersome and costly because it requires the physical transportation of paper in a zone where distances are long and communication facilities undeveloped. Furthermore, its current impact on the reduced use of fiduciary money is very limited because of (i) difficulties in enforcing all the provisions of the law on payment...
instruments; (ii) the amount of bank charges and the collection period, especially for out-of-town and cross-border checks; and (iii) the low incomes (salaries, pensions) of those who issue the checks.

3.4.3 As regards bank means of payment, transfers come second in volume and amount. They represent 25% of bank means of payment, corresponding to 42% in value. They concern an average of two million operations per year in the zone. In comparison to the other payment instruments, transfers are the most appropriate for the automation of processing. However, it has not yet been considered in the standardization process for payment instruments in UEMOA countries, and is still often on paper.

3.4.4 The use of commercial bills is very limited in commercial transactions because the due dates are very often not met by the drawees. These instruments are most often used in transactions with foreign countries. The relative proportion of these instruments in bank means of payment is estimated at nearly 2% in volume and less than 6% in value. The number of operations on commercial bills ranges from 100 000 to 300 000 per year in the zone.

3.4.5 The use of cash cards in UEMOA countries is still very marginal. The cash card system in the zone is currently based on the principle of intra-banking; each institution develops its own system of issuing and accepting cards. On the other hand, any links with international bodies for the issue and/or acceptance of international cards are managed directly by the institution concerned with its limited weight due to the number of bearers and traders of its cards in comparison to the international bodies. Approval by an international network is subject to compliance with a number of rules, concerning security and marketing promotion in particular. Less than 25% of banks issue cash cards in the sub-region. Furthermore, nearly 95% of the issuing banks do not accept the cards of their counterparts, except cards issued in the same network and international cards, hence the absence of an interbank system between most of the banks of the sub-region. Despite these weaknesses for the credit institutions, cash cards will develop significantly in the short term in the sub-region. Nearly all the banks not currently issuing cash cards are planning to do so.

3.5 Interbank Circuits

The Clearing System

3.5.1 The clearing system is composed of modules, governed by regulations which constitute the location agreement on the exchange of funds. The current clearing system in the zone concerns only local securities likely to be presented in chambers. Consequently, for out-of-town and cross-border securities, the exchange circuit is very long, often with unpredictable time frames. This is particularly detrimental to customers who, in their transactions with distant counterparts, cannot control any time limit.

Sub-regional Networks

3.5.2 The two circuits for transfer of funds between two UEMOA countries are payments into current accounts in the BCEAO (provisions from one National Directorate to another) and Correspondent Banking. Besides these two transfer circuits, the postal network occupies an important position with very varied customers in the Union countries. However, delays due to communication and transport problems in the countries of the sub-region have encouraged the emergence of private structures, in partnership with banks and financial institutions within UEMOA. The said structures have established modern communication facilities that provide very rapid services.
a) Cross-border Provisions

3.5.3 These provisions are deposited by the originator with the windows of the BCEAO main branch in the form of paper orders. Communication is established through satellite telecommunication facilities (V-SAT network) installed by the BCEAO, making it independent of the technical constraints of local communication networks.

b) Cross-border Correspondent Banking

3.5.4 It is an alternative to the transfer of funds through the National Directorates of the BCEAO. It has been made necessary by the current clearing rules which prohibit out-of-town presentations. Consequently, each bank needs to use the services of a correspondent to present the securities submitted to it, and drawn in other places. On the other hand, banks use the services of a correspondent in the sub-region to make cross-border payments for their customers, in particular enterprises. Some of the banks in the zone are connected to the SWIFT international interbank network, and thus communicate with their correspondents. Other communications are made by telex or fax, and, for the transmission of securities to be presented for clearing, by mail or through a rapid non-specialized transporter.

3.6 International Networks

International bank transfers in the sub-region depend on the foreign exchange regulations in force in UEMOA. The BCEAO carries out different controls defined in these regulations; it is therefore the sole counterpart of banks in the sub-region for foreign exchange operations against the CFA franc. These operations, for their exchange value in CFA francs, account for a large proportion of movements of large amounts in the current accounts of the BCEAO. The banks in the sub-region generally consider that implementation of these measures by the BCEAO makes transfer operations very cumbersome, and consider them an obstacle to the exercise of their profession. This feeling is shared by treasurers of enterprises, who consider the settlement time frames for these operations too long, resulting in surcharges.

3.7 Constraints on the Sector

3.7.1 The payment system in UEMOA countries is quite under-developed, and does not meet the requirements of a modern economy. It hinders the development of business and banking services in the countries. It is marked by: (i) the limited number of participants in the system; (ii) the low level of security for operations; (iii) the lack of control over the volume and capacity of the system; (iv) undeveloped technological infrastructure; (v) the high cost of transactions and operations; (vi) the low level of interbank operations; (vii) the high level of cash payments; and (viii) the low degree of automation of operations.

3.7.2 The legal framework is also a major constraint on the development of the banking sector. At the legal level, transactions by customers take place within an opaque framework. The law on payment instruments is incomplete, particularly electronic banking law. Despite the existence of some texts (for example the law on payment instruments which, though recent and innovative, already falls short of new requirements), the legal panorama of UEMOA member States is still incomplete. Furthermore, since there are many national (not community) texts, it necessary to ensure coherence to build a solid and unified basis, with explicit rules organizing the new system.

3.7.3 Given the fact that the current system of payment is not efficient, the interbank market in UEMOA is very limited, although there are unequal financing requirements between the member countries. The bulk of bank refinancing is done through the BCEAO. Banks with over-
liquidity have few opportunities to invest their funds. They tend to maintain high credit balances with the BCEAO at low interest rates. On the other hand, banks requiring refinancing borrow from the BCEAO at a higher cost than what they would have obtained in a developed interbank market.

3.7.4 The time taken to process cross-border transfer provisions (between 1 and 3 days) results in significant float due to delay between the value date for debiting the account of the originator institution and the value date for crediting the account of the beneficiary institution. This generates a significant shortfall for the sector; for example, the total shortfall for 1997 stood at an average of about CFAF 435 million.

3.7.5 The main problem encountered by institutions in the use of Correspondent Banking concerns coverage of accounts with the correspondent. Contrary to conventional international Correspondent Banking, such coverage is not provided by cash operations with a counterpart in the same country as the correspondent, but by a cross-border provision made by BCEAO. In this respect, coverage operations encounter problems relating to time as mentioned earlier and that is why banks in the zone face difficulties in providing coverage for accounts with correspondents on a daily basis. There are also peculiarities in working conditions due to the nature of the monetary union of the sub-region in which working days are not the same in the different member countries.

3.8 Development Strategy for the Sector

3.8.1 The economic crisis of the 1980s hampered the smooth functioning of the banking and financial system in the zone. Nearly all the development banks and a number of public and private commercial banks were closed down. Deep and costly restructuring reforms, conducted under Financial Sector Adjustment Programmes (FISAP) in several countries, helped to restore a stabilized financial system, with a structure and products that are adapted to the needs of the economies. The reforms also concerned the staff (drastic reduction of staff) and the capital, with marked orientation towards privatization.

3.8.2 The new financial provisions concerned: (a) the establishment of an efficient banking supervision mechanism to provide better guarantee for depositors by obliging banks to comply with a prudential mechanism relating to the conditions of practice, regulations governing operations, and compliance with management standards based on international standards; (b) the application of a new bank accounting plan (PCB) and the West African Accounting System (SYSCOA) for enterprises; (c) introduction of the pooling of payment incidents; and (d) modification of the banking environment with the appearance of proximity banks with majority capital owned by the private sector and Africans. Lastly, several bilateral and multilateral donors, including the Bank, encouraged the establishment of micro-finance institutions responsible for financing small enterprises that are more or less informal. To organize the microfinance sector of the Union, specific regulations for mutual benefit savings and credit institutions were prepared. These regulations, adopted in all the countries of the Union, define rules relating to the establishment, functioning and supervision of the structures.

3.8.3 In addition to carrying out activities aimed at stabilizing the banking sector, the strategy for developing it is currently geared towards improved efficiency of the financial system and reduction of risks facing the payment system in the zone. It focuses on (i) modernizing the system for exchanging and settling large amounts; (ii) modernizing the system for exchanging and settling small amounts; and (iii) developing an interbank cash card system.
It aims at: (a) increasing the security of payments; (b) developing the interbank market; (c) reducing management costs and payment time; (d) increasing the bank coverage rate; (e) extending interbank transactions to all means of payment; (f) adapting the payment system to the needs of users and requirements of globalization of markets; and (g) combating money laundering.

3.8.4 The project should increase transaction opportunities in the entire UEMOA zone, both for banks and their customers, thereby contributing to the promotion of trade and regional integration. It should also increase the security of payments and reduce the costs of transactions.

3.9 Bank Group Strategy

3.9.1 The cooperation and economic integration objectives at the core of the African Union and the priorities of NEPAD are consistent with the Bank Group’s Vision adopted by the Boards of Governors in 1999, which makes regional integration one of its major concerns. The project to reform systems and means of payment is fully in line with this strategy. By contributing to the stability of the financial system and the flow of trade, it will have a significant impact on the enhancement of regional cooperation and economic integration between the beneficiary countries. Furthermore, the modernization of payment systems will enhance efforts made by governments in the mobilization of financial savings. It will support the establishment of a financial market and help to increase private investment.

3.9.2 The Bank Group was designated by the NEPAD Steering Committee to supervise the implementation of banking and financial standards in African countries. To that end, the establishment of an efficient and reliable payment system constitutes a prerequisite for the smooth functioning of the financial system and financial stability in African economies. Through this project, the Bank will participate in the development of financial instruments, products and new markets, such as equity and debt instruments. In addition, improvement in this area would increase competition, improve services and reduce the costs of transactions for financial institutions which would then be able to prepare new products and acquire new sources of income in the form of charges.

3.10 Performance of Similar Projects

The multinational operations of the Bank Group have focused mainly on the financing of lines of credit to regional development institutions, telecommunications and energy supply projects, as well as the strengthening of regional institutions in the agricultural sector. The Bank has also participated in the financing of structural adjustment programmes for the financial sector in most countries in the zone, which contributed to rehabilitating the regional financial system. This project is the Bank’s first operation for BCEAO and in support of payment systems.

3.11 Presentation of BCEAO

3.11.1 The BCEAO is an international public institution established by the member States of the West African Monetary Union. The capital of BCEAO, currently called up in the amount of CFAF 134.120 billion, is entirely subscribed by the member States and shared equally among them. The status, privileges and immunities of international financial institutions are granted to BCEAO on the territory of each member State of the Union, under conditions defined in its Statutes.

3.11.2 The BCEAO enjoys full legal status, and in particular, the capacity to contract, acquire and dispose of movable and immovable property, and institute legal proceedings. To that end, in
each of the member States of the Union, it enjoys the broadest legal capacity granted to
corporate bodies in national legislations. It can lend or borrow from foreign banks, as well as
foreign or international institutions or organizations. However, any convention or agreement
including the Central Bank’s obligation or commitment, to be concluded with foreign issuing
Governments and institutes or International Institutions, shall be approved by the Council of
Ministers of the Union.

3.11.3 BCEAO operations should be connected with the organization and management of the
monetary, banking and financial system of the Union and its member States, and carried out in
accordance with its Statutes. The BCEAO has the exclusive privilege to issue paper money,
banknotes and coins that can be used as legal tender and can be redeemed in the member States
of the Union. It can grant overdrafts in current accounts to Public Treasuries of the States in the
Union, at its discount rate and within the limit of 20% of the national fiscal revenue for the
previous financial year. It assists the Governments of countries of the Union, particularly for the
management of their bills and securities portfolio, investment of funds, management of public
debt, assistance in their relations with financial and monetary institutions, and the settlement of
their quotas to the International Monetary Fund.

3.11.4 Under the Cooperation Agreement between the French Republic and the member
Republics of the Union guaranteeing the free convertibility of the CFA Franc as well as the
fixed parity with the French Franc, the BCEAO manages the operations account opened in the
French Treasury. In accordance with the terms of this agreement, the BCEAO pays into the
operations account its liquid assets outside its issuing zone, except (i) amounts required for
routine cash operations; (ii) amounts required for meeting obligations contracted by the States of
the Union towards the IMF and for which it accepted responsibility under conditions defined by
the agreements concluded with the States and approved by the Council of Ministers; and (iii)
amounts which the Board of Directors decide to deposit in foreign exchange current accounts
with the BRI or use for subscribing to negotiable notes with due dates not exceeding two years;
the total amount deposited in foreign exchange or used for subscription to notes denominated in
foreign exchange cannot exceed 35% of the net foreign assets of BCEAO, excluding the IMF
gold tranche position of the member States of the Union and Special Drawing Rights held by
them which are authorized to be considered as forming part of its foreign assets.

3.11.5 The BCEAO also provides a number of services to the banking system of the Union, in
particular (i) keeping current accounts in its branches in which the mandatory reserve imposed
on banks and some categories of financial institutions is assessed; (ii) managing payment
systems, including control and surveillance; (iii) making international transfers to countries
outside the UEMOA zone, pursuant to the foreign exchange regulations in force in the Union;
and (iv) keeping custody of the public debt securities of member States of the Union.

3.11.6 Under the supervision and control of the Council of Ministers, the BCEAO is managed
by a Governor, a Board of Directors and National Credit Committees. The Governor is
appointed by the Council of Ministers for a six (6)-year renewable term. He ensures
implementation of decisions taken by the Council of Ministers, as well as those taken by the
Board of Directors which he chairs. He is assisted by two Vice-Governors appointed by the
Council for a five (5)-year renewable term. He manages the external liquidities of the Union,
and is responsible for organizing the services and their activities.

3.11.7 Each member State is represented in the Board of Directors by two Executive
Directors. The French Government is also represented by two Executive Directors, under the
same conditions and with the same responsibilities as those appointed by the States. Within the
guidelines given by the Council of Ministers, the Board of Directors (i) specifies BCEAO
operations and determines their rates and conditions of implementation; (ii) defines the rules governing National Credit Committees; (iii) determines the overall amount of assistance which the BCEAO can give for the financing of economic activity in each of the States; and (iv) authorize operations which affect the Central Bank’s asset base, closes off the accounts of the Central Bank, and determines modifications to the Statutes to be submitted to the Council of Ministers for ratification. A National Credit Committee is established in each of the States. It assesses the financing requirements of economic activity of the country. It proposes to the Council the amount of domestic credit and assistance which the Central Bank can grant to the banks and the Treasury; it ensures their utilization and control in the State concerned.

3.11.8 The general organization of BCEAO comprises the Headquarters in Dakar, and a National Directorate in each of the member States. The Headquarters has the BCEAO Governor’s office and the Central Services Departments. The operational role of the Central Services Departments consists in centralizing, at the sub-region level, the issue of international transfers and management of the accounts of foreign correspondents of the BCEAO, or initiating monetary policy Open Market operations. Their duties are performed locally by the services of agencies. The accounts of international institutions, staff and others are kept at the headquarters, but not in its accounts for the banks and financial institutions of the Union.

3.11.9 Each National Directorate comprises: (i) a Main Agency in the capital town of the State; and (ii) Subsidiary Agencies in big towns. Depending on the country, the number of subsidiary agencies ranges from 1 to 6, forming a total of 23 subsidiary agencies in all the countries. Only Guinea does not have a subsidiary agency for the moment. Each main agency is responsible for: (a) keeping the current accounts of the headquarters of banks in the country and those of financial institutions which have accounts in BCEAO; (b) ensuring the administrative management of the accounts and operations; (c) managing the clearing house of the capital town of the State; (d) managing, within the National Directorate, the monetary policy of BCEAO, in conjunction with the Credit Department of the Headquarters under the Open Market operations or autonomously, for the refinancing of banks; (e) carrying out cash operations; and (f) managing the issue of public debt securities of the State on the primary market, keeping the securities, and ensuring the settlement/delivery of transactions on the secondary market.

3.11.10 As at 31 December 2000, BCEAO staff comprised 3,672 employees made up of 62 staff members of Governor’s Office and Directors, 1 082 supervisory staff, and 2 528 locally recruited staff. The Institution has enough qualified staff to accomplish the tasks assigned by its Statutes as well as those relating to the implementation of this project. The BCEAO also has a training center which provides courses for Bank staff, Public Administrative Services, and credit institutions.

3.11.11 As regards management, the BCEAO has modernized its management instruments with the implementation of a significant plan to develop its information system, particularly as regards infrastructure, the intranet and applications. It currently has an integrated network for the transmission of data, internal telephone, corporate communication, and tele-teaching.

3.11.12 In accordance with its Statutes, the accounts of the Agencies are currently audited by national controllers appointed by the Minister responsible for Finance in each of the member States. The central accounts are audited, and the comments made by national controllers are summarized by Auditor-Controller appointed by the Council of Ministers. The Auditor-Controller, in collaboration with a controller appointed by France, review the implementation of the operations account agreement.
The BCEAO financial year, ended 31 December 2000, was marked by an increase in the main balance sheet items. The total balance sheet amounted to CFAF 4,669.7 billion, showing an increase by CFAF 297.5 billion, or 6.8%, in comparison to the previous year. A review of these documents shows in particular, foreign currency assets amounting to about CFAF 2,298.6 billion, including CFAF 2,222 billion for the operations account. The equity capital and reserves as at 31 December 2000 amounted to CFAF 888.5 billion, including CFAF 369 billion balance brought forward. In terms of result, the financial year 2000 recorded a net profit of CFAF 30.9 billion, showing an increase of CFAF 9.5 billion in comparison to the 1999 financial year. The financial situation of the Institution is sound, and its results show significant profits.

4 THE PROJECT

4.1 Design and Rationale

4.1.1 To strengthen the efficiency of monetary policy and facilitate economic and commercial relations within the UEMOA, the BCEAO in March 1999 initiated a regional payment systems modernization project within member states. A consulting firm prepared the project, under the supervision of the MRSMP and with the close collaboration of: (i) a committee of experts presided by the BCEAO and bringing together representatives of the banking community in each UEMOA member state; (ii) international payment systems experts from several top Western central banks; and (iii) World Bank and International Monetary Fund representatives. Several meetings were organized to set forth the fundamental reform objectives and principles as well as the architecture and design of the new infrastructure for the sub-region. The project preparation was based on the participatory process which associated all parties concerned in defining project orientations and the choice of solutions. In that connection, a major organizational mechanism was put in place in each member country and at Union level.

4.1.2 Following an analysis of existing UEMOA needs and consultations within financial and user circles, the three-component payment system was selected. Furthermore, the regional approach combined with improved payment systems was adopted for reasons of enhanced efficiency and better cost effectiveness for countries belonging to a monetary zone like UEMOA, compared with the individual country method.

4.1.3 The project design equally took into account the lessons drawn from similar payment system projects in other emerging countries. The first of such lessons concerns the complexity of the process to design and implement a payment system which requires the active participation of all parties. The second lesson is that each component put in place should follow an appropriate chronological order. Thus for the project under discussion, the high volume payment system will be set up first since it will process most operations. Most final users will feel its positive impact immediately. Unlike the RTGS (real time gross settlement), the Compensation component represents a gradual implementation for banks, and will require no major changes in terms of systems and internal operating procedures. The success of the Automatic Payments System component will depend on the existence of a reliable and rapid gross settlement system. At the same time, the basic functions of the RTGS (accounts management and settlement system) will be implemented with a view to settling the net systems balances.

4.1.4 The third lesson is that it is essential to set up an appropriate legal framework and enforce adequate standards covering the critical aspects of operating the payment system. Hence, the legal framework was extensively reviewed and several amendments made to existing regulatory provisions. The standards were prepared in close collaboration with the parties. The BCEAO is responsible for enforcing them. The reflexion focused on: (i) practical issues raised...
by the project; (ii) possible solutions with a view to harmonizing the positive law of States with the demands of reform; (iii) the choice of what support for the new mechanism to introduce in the positive law of member States; and (iv) the proposal for a draft text nomenclature. Two core principles guided the exercise.

4.1.5 First, it was necessary to avoid the dispersion of texts and seize the opportunity to introduce innovations by focusing the reform on a single UEMOA regulation. The regulation falls under three major parts: (i) general provisions regarding participants (BCEAO and others), irrevocability of operations and promotion of scriptural instruments; (ii) two protection mechanisms on electronic proof and temporary sale of securities, respectively; and (iii) existing provisions on the common law on instruments of payment, excluding those involving penal sanctions. The innovations concern the introduction of new electronic instruments of payment, banking card fraud regulation and solutions to various practical difficulties arising from the application of certain provisions of the common law on instruments of payment.

4.1.6 Next, the legal systems concerned needed harmonization, first between the community law and the laws of member States by abrogating the provisions of the common law on instruments of payment that was already taken into account in a new UEMOA regulation on modernization of the system of payment, while maintaining penal provisions to address violations punishable under the community regulation; subsequently, between the UEMOA community law and the OHADA harmonized law in connection with the provision on the organization of community liability settlement procedures.

4.1.7 The draft guideline on money laundering and the conventional component on the compensation system will complete the mechanism. The rough basic texts that make up the reform framework have already been drafted, of which: (i) the UEMOA Regulation on Modernization of the System of Payment; (ii) two UEMOA Guidelines, one to encourage the use of scriptural resources and the other to fight money laundering in UEMOA member States; (iii) review of the OHADA uniform act; (iv) abrogation of provisions of the law on instruments of payment excluding those containing penal sanctions; and (v) signature of the conventional compensation component.

4.1.8 At the technical level, the architecture and functional specifications of the planned system of payment are not only compatible with the current status of information technology in the banking system but also with the fundamental principles recently published by the BIS on systems of payment.

4.1.9 For the telecommunications component, the system of payment under consideration will use the BCEAO satellite system under contractual conditions (drafting underway), in close collaboration with the banking community. Questionnaires for the attention of telecommunications operators and regulators, banks and financial establishments operating in the UEMOA have been prepared. A study mission to assess the status quo in UEMOA countries led to the preparation of a detailed analytical report on inventory of fixtures and needs. Based thereon, a document comparing various possible solutions for interconnecting participants to the BCEAO network was produced. The consultant’s reports defined the technical specifications and proposed the organizational structure to put in place with a view to implementing the solution retained (local radio loop). Volumetric data projections for various sub-systems and the telecommunications sub-system perimeter in terms of data exchange security were then put together to support the relevance and feasibility of the technical choice.
4.1.9 For a wider dissemination of MRSMP activities, an information bulletin was prepared and its website hot-linked to the BCEAO web page. An agency was also selected for the imminent start of communication activities in the media to ensure consistency of actions already initiated in connection with the reform and centralization of incidents of payment. Furthermore, several training programmes have been scheduled for staff of the BCEAO, local banks and users.

4.1.10 By contributing to improving capital flows in the zone, bankarization of economies and fluidity of trade, the project falls within the framework of the economic integration strategy of UEMOA member States. Furthermore, given its objectives and the scope of its infrastructure, it synchronizes with the New Partnership for African Development (NEPAD). Above all, it conforms with the Bank’s multinational project financing policy since it will have a significant positive impact on strengthening regional cooperation and economic integration among member countries, and in helping them attain their common development potential.

4.2 Project Zone and Beneficiaries

The project covers eight countries of the Union with a total area of 3 505 474 km² and an estimated population of 70.2 million. The zone’s active population is projected at 28 million. The beneficiaries are the participating financial institutions, firms and the ever-increasing users of banking services. Even those who currently have no access to banking services could, in the long term, benefit from the project should the electronic cash card study prove conclusive.

4.3 Strategic Context

4.3.1 In the UEMOA, there is much emphasis on strengthening integration among the eight member countries. Considerable effort has been made towards the opening of the regional market. The customs union became effective from 1 January 2000 with a common external tariff and total custom duty and tax franchise on equivalent items for products originating within the Union. There is provision for accommodating measures to compensate the fiscal losses and gradually de-protect economic activity (e.g. cyclical import tax introduced while awaiting entry into force of WTO safeguard measures). At the legal level, the harmonization of business law within the Franc zone (OHADA) has been in force since July 1998. In the financial field, the UEMOA Regional Council for Public Savings and Financial Markets was set up in 1997 and the taxation of representative capital goods harmonized. A regional stock exchange was also set up. The project under consideration plans, among other objectives, to reduce the high cost of commercial transactions in the sub-region and facilitate the integration of its financial markets.

4.3.2 This project completes the financial sector reforms undertaken in most member-countries in recent years. It will: (i) minimize the risk of non-settlement in the system of payments with regard to high-value fund transfers; (ii) introduce a modern legal and institutional framework for the systems of payment in the UEMOA zone; (iii) strengthen the supervisory role of the BCEAO vis-à-vis financial institutions; (iv) strengthen the BCEAO’s new mechanism for centralization of incidents of payment (CIP); (v) facilitate payments in scriptural money and reduce the system’s need for liquidity; (vi) promote the development of an inter-banking system and improve the possibility of negotiating public debt values on the financial market; (vii) favour the development of the Regional Stock Exchange; and (viii) facilitate initiatives to fight money laundering and lay the foundation for other developments, e.g. electronic trade.
4.3.3 As set forth in the Agreement Establishing the Bank, one of the Institution’s roles is to finance investment projects and programmes with a view to the economic and social development of RMCs, especially by giving priority to operations of interest to several States and those that aim at making the economies of its members increasingly complementary and orderly development of their external trade. The project to reform systems of payment will contribute to enhancing capital flow in the zone, bankarization and trade fluidity. It is technically feasible, economically viable and socially beneficial. It has no negative impact on the environment. Better still, it will help significantly in the development of the private sector. All UEMOA member countries are eligible to ADF resources. Against that background, the project is qualified for financing with the Bank Group’s concessional resources.

4.4 Project Objectives

4.4.1 The project’s sectoral objective is to promote growth and economic integration in UEMOA countries by strengthening basic infrastructure in the financial sector.

4.4.2 Its core objective is to put in place a set of national and regional mechanisms of payment to: (i) meet the increasing needs in all UEMOA economic sectors surely, soundly, securely, on time and at reasonable cost; and (ii) ensure that the new systems of payment meet internationally acceptable standards and basic principles, thus guarantee a high degree of consumer confidence vis-à-vis UEMOA financial systems.

4.5 Project Description

4.5.1 The proposed project comprises the following key components:

A Real Time Gross Settlement (RTGS) system
B High volume compensation (COMPENS)
C Interbank card system
D Telecommunications system
E Project management

COMPONENT A: REAL TIME GROSS SETTLEMENT (RTGS) SYSTEM

4.5.2 Component A comprises the set up of a regional Real Time Gross Settlement (RTGS) system for high volume transactions. The system will be opened to banks and other financial institutions. The RTGS system is designed to meet high or systemic payments from the wholesale banking sector (interbank transactions, securities settlement, BCEAO monetary operations, settlement of daily national balances generated by the compensation system and high volume settlement and payment to State sectors and firms for which timeframes may prove critical). This system will also process payment against delivery of securities held and managed by the BCEAO. Securities traded at the Regional Stock Exchange could also be settled through the RTGS. In 2003-2004, the RTGS should process nearly 275 000 transactions yearly. One of the key objectives of the RTGS is to minimize the risk of the crash of one financial institution hurting the system as a whole. The RTGS system proposed applies the principles defined by international authorities (BIS) to limit such risks.

4.5.3 Under the component, the ADF will finance the procurement of the Settlement/Delivery packaged software, servers for the Settlement/Delivery packaged software at the BCEAO headquarters and major agencies as well as BCEAO participant platforms. Furthermore, the ADF will fund the recruitment of a Settlement/Delivery specialist for six months.
COMPONENT B: COMPENSATION SYSTEM (COMPENS)

4.5.4 The purpose of the “high volume transaction compensation system” is to improve current operations at the national and sub-regional level. To avoid the inconveniences associated with compensation and transport of “paper” securities, a new process was prepared. The system should enable a beneficiary bank to present all its national instruments to the nearest or most convenient local or national BCEAO agency. All transactions, including those “out-of-town”, will be submitted locally in electronic form to the drawing bank at the same locations as those of the former clearing houses (BCEAO agencies). To start with, the settlements will be made in the current account of the participating bank kept in the Main Agency of the Central Bank. With the introduction of the RTGS system, the national multilateral accounting and balance settlements will be directly processed in the system. By 2004, the system should process 20 million transactions yearly.

4.5.5 Under the component, the ADF will fund the procurement of servers for the BCEAO as well as studies to define the transitional plan towards exchange of scanned images.

COMPONENT C: INTER-BANK CARD SYSTEM

4.5.6 The aim of the bank card system is to develop a common regional product thanks to which bank customers would use their card at any cash dispenser or point of sale terminal of any bank or trader in the region. This component includes: (i) the definition of a regulatory framework and contractual mechanisms; and (ii) establishment of a regional interbank electronic money center to regulate the system on behalf of banks and maintain relations with international bank card networks. Going by the latest estimates, at least 800 000 cards will be in circulation by 2004, resulting in nearly 20 to 40 million transactions yearly. The success of this component whose implementation the region’s commercial banks will finance, will mostly depend on the strategy that the banks will adopt in marketing the card as one of their priority products.

4.5.7 Under the component, the ADF will finance the recruitment of a card system specialist for 3.5 months who will prepare the technical specifications of the inter-bank system, on the one hand, and on the other, the procedure of recruiting the Managing Director of the UEMOA Electronic Money Interbank Group (Groupement Interbancaire Monétique UEMOA, GIM-UEMOA). The terms of reference of the specialist is given in Annex 5.

COMPONENT D: TELECOMMUNICATIONS SYSTEM

4.5.8 The actual set up of an efficient system of payment depends on a sound and effective regional telecommunications network. The architecture of the planned network should guarantee: (i) high and upward compatible data throughput to support the traffic that could grow rapidly; (ii) high availability; (iii) reliability, integrity and confidentiality of financial information; (iv) good uniform service quality at all network access points; and (v) cost optimization.

4.5.9 The local supply of the sub-region’s operators is inadequate; the interconnection of national networks between various Union countries is either non-existent or unsuitable. Therefore, to interconnect its 25 sites, the BCEAO was obliged to set up and run its private satellite telecommunications network since January 1999. The project’s telecommunications system component comprises two sub-components: the sub-regional “dorsal” network which will depend on the existing private VSAT network and an inter-bank network in each capital connected to the sub-regional network.
4.5.10 The ADF will fund the procurement and installation of radio links between the BCEAO and commercial bank headquarters.

**COMPONENT E: PROJECT MANAGEMENT**

4.5.11 This component comprises the project management and follow-up, bidding, training, charges for setting up the legal framework and beneficiary surveys. Temporary international and local consultants will be recruited to help the MRSMP to: (i) manage and implement the project; (ii) put in place appropriate regulations and procedures; (iii) train staff of participating institutions; and (iv) conduct beneficiary surveys.

4.5.12 The component will also include provisions for a feasibility study on the use of electronic money in the form of a smart card for payment of small amounts especially by the underprivileged. This technology could be a means of extending the use of fiduciary payments to those who currently have no bank accounts.

4.5.13 ADF funding under this component will mostly concern several training and skills improvement activities for BCEAO and commercial bank staff, a cooperation seminar on systems of payment and an information visit with focus on various aspects of systems of payment. It will also finance the supplementary study on preparation of the technical specifications of the electronic cash card.

4.5.14 A detailed description of the project is given in Annex 2.

4.6 Project Status of Implementation

4.6.1 The IDA loan agreement was signed in June 2001. Bids on software procurement for the automated compensation system and the RTGS were invited in November 2001. Bid opening took place in June 2002. The bid analysis reports were forwarded to the World Bank for declaration of no objection.

4.6.2 For the telecommunications component, a contract was directly negotiated with the BCEAO supplier to strengthen the existing VSAT and procure videoconferencing terminal equipment under IDA financing. The contract was signed in January 2002. The contract is in its implementation phase.

4.6.3 The first phase of the electronic cash card study has been completed and will be followed with the preparation of the general and detailed specifications. Within the framework of the electronic money component, several meetings have already been held in fifty-seven (57) financial and banking institutions (out of the Union’s 92) to decide in favour of setting up a regional interbank electronic money system.

4.7 Impact on the Environment

In terms of infrastructure, the project comprises a telecommunications component the installation of which will require no civil engineering works likely to deteriorate the soil. In that regard, the project is considered as having no negative effect on the environment and is classified under Category 3.

4.8 Project Cost

4.8.1 The project cost estimate net of taxes and customs duty, stands at CFAF 18.12 billion or UA 20.17 million. The foreign exchange accounts for 83% of the total cost (UA 17.14 million) while the local currency represents 17% thereof (UA 3.58 million).
4.8.2 The cost estimates are based on the unit prices on similar recent projects and the outcome of bids on certain elements of the RTGS and Compensation components submitted for World Bank financing. The costs factored in a 5% and 3% provision for contingencies and inflation, in that order. Tables 4.1 and 4.2 below present the cost summary.

Table 4.1
Summary of Project Cost Estimate by Component

<table>
<thead>
<tr>
<th>Component</th>
<th>In CFAF Billion</th>
<th>In UA Million</th>
<th>FE %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For. Exc.</td>
<td>LC</td>
<td>Total</td>
</tr>
<tr>
<td>A. RTGS</td>
<td>5880</td>
<td>615</td>
<td>6495</td>
</tr>
<tr>
<td>B. High volume compensation</td>
<td>3526</td>
<td>421</td>
<td>3947</td>
</tr>
<tr>
<td>C. CARD system (electronic money)</td>
<td>247</td>
<td>165</td>
<td>412</td>
</tr>
<tr>
<td>D. Telecommunications</td>
<td>2227</td>
<td>193</td>
<td>2420</td>
</tr>
<tr>
<td>E. Project management</td>
<td>2003</td>
<td>1502</td>
<td>3505</td>
</tr>
<tr>
<td><strong>Base cost</strong></td>
<td>13883</td>
<td>2896</td>
<td>16779</td>
</tr>
<tr>
<td>Contingencies 5%</td>
<td>688</td>
<td>151</td>
<td>839</td>
</tr>
<tr>
<td>Inflation 3%</td>
<td>412</td>
<td>91</td>
<td>503</td>
</tr>
<tr>
<td><strong>Total project cost</strong></td>
<td>14983</td>
<td>3138</td>
<td>18121</td>
</tr>
</tbody>
</table>

Table 4.2
Project Cost Summary by Expenditure Category

<table>
<thead>
<tr>
<th>Component</th>
<th>In CFAF Billion</th>
<th>In UA Million</th>
<th>FE %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For. Exc.</td>
<td>LC</td>
<td>Total</td>
</tr>
<tr>
<td>1. Goods</td>
<td>9401</td>
<td>86</td>
<td>9487</td>
</tr>
<tr>
<td>2. Services</td>
<td>2069</td>
<td>517</td>
<td>2586</td>
</tr>
<tr>
<td>3. Operating expenses</td>
<td>2413</td>
<td>2293</td>
<td>4706</td>
</tr>
<tr>
<td><strong>Base cost</strong></td>
<td>13883</td>
<td>2896</td>
<td>16779</td>
</tr>
<tr>
<td>4. Unallocated</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contingencies 5%</td>
<td>688</td>
<td>151</td>
<td>839</td>
</tr>
<tr>
<td>Inflation 3%</td>
<td>412</td>
<td>91</td>
<td>503</td>
</tr>
<tr>
<td><strong>Total project cost</strong></td>
<td>14983</td>
<td>3138</td>
<td>18121</td>
</tr>
</tbody>
</table>

4.9 Sources of Finance and Expenditure Schedule

4.9.1 The ADF, the IDA, the BCEAO and commercial banks will jointly fund the project as indicated in Table 4.3 below. The ADF will contribute UA 6.20 million or 30% of the total project cost. That financing will cover 34% of the foreign exchange cost and 9% of the local currency cost.

4.9.2 The IDA financing is estimated at UA 6.47 million and accounts for 31% of the total project cost. The BCEAO will contribute UA 5.96 million (29% of the total cost) while the region’s commercial banks will chip in UA 2.08 million or 10% of the project cost.

Table 4.3
Sources of Finance (in UA million)

<table>
<thead>
<tr>
<th>Source</th>
<th>For. Exc.</th>
<th>LC</th>
<th>Total</th>
<th>% of the Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADF</td>
<td>5.90</td>
<td>0.30</td>
<td>6.20</td>
<td>30</td>
</tr>
<tr>
<td>IDA</td>
<td>5.05</td>
<td>0.97</td>
<td>6.02</td>
<td>31</td>
</tr>
<tr>
<td>BCEAO</td>
<td>5.15</td>
<td>0.81</td>
<td>5.96</td>
<td>29</td>
</tr>
<tr>
<td>Commercial banks</td>
<td>0.59</td>
<td>1.49</td>
<td>2.08</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17.14</strong></td>
<td><strong>3.57</strong></td>
<td><strong>20.71</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
Tables 4.4 and 4.5 show the project cost by source of finance, component and category.

### Table 4.4

**Cost by Component and Source of Finance**  
(in UA million)

<table>
<thead>
<tr>
<th>Component</th>
<th>Source of Finance</th>
<th>Commercial</th>
<th>Total</th>
<th>Cost of Project %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ADF</td>
<td>IDA</td>
<td>BCEAO</td>
<td>Banks</td>
</tr>
<tr>
<td>A. RTGS</td>
<td>2.97</td>
<td>1.67</td>
<td>2.98</td>
<td>0.41</td>
</tr>
<tr>
<td>B. High volume compensation</td>
<td>0.37</td>
<td>1.43</td>
<td>1.69</td>
<td>1.28</td>
</tr>
<tr>
<td>C. CARD system (electronic money)</td>
<td>0.16</td>
<td>0.18</td>
<td>0.15</td>
<td>0.03</td>
</tr>
<tr>
<td>D. Telecommunications</td>
<td>1.50</td>
<td>1.24</td>
<td>0.29</td>
<td>0.36</td>
</tr>
<tr>
<td>E. Project management</td>
<td>1.20</td>
<td>1.96</td>
<td>0.86</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Total project cost</strong></td>
<td><strong>6.20</strong></td>
<td><strong>6.47</strong></td>
<td><strong>5.96</strong></td>
<td><strong>2.08</strong></td>
</tr>
</tbody>
</table>

### Table 4.5

**Project Cost by Category and Source of Finance**  
(in UA million)

<table>
<thead>
<tr>
<th>Category</th>
<th>ADF</th>
<th>IDA</th>
<th>BCEAO</th>
<th>Commercial</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods</td>
<td>4.40</td>
<td>3.87</td>
<td>2.64</td>
<td>0.97</td>
<td>11.88</td>
</tr>
<tr>
<td>2. Services</td>
<td>0.60</td>
<td>2.40</td>
<td>0.26</td>
<td>0.00</td>
<td>3.26</td>
</tr>
<tr>
<td>3. Operating expenditure</td>
<td>1.20</td>
<td>0.20</td>
<td>3.06</td>
<td>1.11</td>
<td>5.57</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6.20</strong></td>
<td><strong>6.47</strong></td>
<td><strong>5.96</strong></td>
<td><strong>2.08</strong></td>
<td><strong>20.71</strong></td>
</tr>
</tbody>
</table>

Tables 4.6 and 4.7 below show the project expenditure schedules by source of finance and component, respectively.

### Table 4.6

**Expenditure Schedule by Component**  
(in UA million)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>RTGS</td>
<td>2.23</td>
<td>3.38</td>
<td>1.58</td>
<td>0.84</td>
<td>8.03</td>
</tr>
<tr>
<td>High volume compensation system</td>
<td>2.53</td>
<td>1.41</td>
<td>0.37</td>
<td>0.46</td>
<td>4.76</td>
</tr>
<tr>
<td>CARD system (electronic money)</td>
<td>0.35</td>
<td>0.17</td>
<td>0.00</td>
<td>0.00</td>
<td>0.52</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>0.83</td>
<td>1.43</td>
<td>0.70</td>
<td>0.43</td>
<td>3.39</td>
</tr>
<tr>
<td>Project management</td>
<td>1.00</td>
<td>1.60</td>
<td>0.80</td>
<td>0.60</td>
<td>4.01</td>
</tr>
<tr>
<td><strong>Total project cost</strong></td>
<td><strong>6.94</strong></td>
<td><strong>7.99</strong></td>
<td><strong>3.45</strong></td>
<td><strong>2.33</strong></td>
<td><strong>20.71</strong></td>
</tr>
</tbody>
</table>
Table 4.7
Expenditure Schedule by Source of Finance (in UA million)

<table>
<thead>
<tr>
<th>Source of Finance</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADF</td>
<td>0</td>
<td>4.35</td>
<td>1.24</td>
<td>0.61</td>
<td>6.20</td>
</tr>
<tr>
<td>IDA</td>
<td>4.53</td>
<td>1.30</td>
<td>0.32</td>
<td>0.32</td>
<td>6.47</td>
</tr>
<tr>
<td>BCEAO</td>
<td>1.58</td>
<td>1.51</td>
<td>1.68</td>
<td>1.19</td>
<td>5.96</td>
</tr>
<tr>
<td>Commercial banks</td>
<td>0.83</td>
<td>0.83</td>
<td>0.21</td>
<td>0.21</td>
<td>2.08</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6.94</td>
<td>7.99</td>
<td>3.45</td>
<td>2.33</td>
<td>20.71</td>
</tr>
</tbody>
</table>

5. **PROJECT IMPLEMENTATION**

5.1 **Borrower and Executing Agency**

The BCEAO is the common issuing institution for the eight UEMOA member States. It manages the current system of payment and is responsible for implementing the project under discussion. Therefore, the BCEAO shall be the ADF loan borrower. The ADF-VIII guidelines for financing multinational operations stipulate that the participating RMCs shall individually and collectively guarantee that loan reimbursement commitments shall be fulfilled. However, given BCEAO’s financial credibility and its role in implementing the economic and monetary policy of the zone’s countries, the counter-guarantee of those States would be unnecessary. Furthermore, the World Bank, which is a joint-financier of the project, requires no State counter-guarantee. The Mission for the Reform of Systems and Means of Payment (MRSMP) set up within the BCEAO will coordinate activities during the implementation phase.

5.2 **Institutional Arrangements**

5.2.1 The Mission for the Reform of Systems and Means of Payment (MRSMP) placed under the direct authority of the BCEAO Director of Projects and Missions Department will oversee the project. Headed by a Mission Manager with the rank of Director, the MRSMP comprises a multi-discipline team of BCEAO staff specialized in various fields (finance, economics, law, etc.). Given the importance and specificities of each sub-project, a manager was appointed for each of the sub-projects (RTGS, Compensation, Electronic Money, Telecommunications, Legal) to coordinate operations under his/her competence. The MRSMP also uses the services of consultants during the development of new systems of payment or to solve specific problems. It has an administrative, financial and accounting procedures manual prepared with World Bank assistance. The project organization chart is given in Annex 3.

5.2.2 The MRSMP works in close collaboration with the Consultative Committee on Payments (CCP) which at the national level comprises the representatives of beneficiaries and final users, as well as international experts/specialists in systems of payment. Within each national Consultative Committee on Payments, the banks set up the following sub-committees: RTGS, Treasurers, Compensation, Electronic Money, Legal and Regulatory Framework.

5.2.3 To win the support and involvement of all project actors, a Committee of Experts (CE) was set up. The CE comprises the representatives of each of the national Consultative Committee on Payments and the Panel of International Experts drawn from central banks and international institutions. The Committee meets regularly to discuss and make recommendations on issues raised and options emerging during the project implementation phase.
5.2.4 To ensure the success of the “Electronic Money” component, a group called the Interbank Electronic Money Group (Groupement Interbancaire Monétique, GIM) was set up to study, standardize, promote and define security norms for the regional interbank electronic money system. Moreover, an Electronic Money Processing Center will be established principally to run the routing network, pre-compensate, calculate and manage commissions. Optionally, the Center will manage transactions and provide remote oversight over cash dispensers, manufacture and personalize cards, call centers, the exchange and the international interchange.

5.3 Implementation and Supervision Schedules

Project implementation started in June 2001 and the phase is estimated to span 48 months (completion scheduled for July 2005). ADF-funded activities should be implemented over 33 months from the date of loan approval by the Board as summarized in Table 5.1 below and Annex 4. To monitor project implementation, the Bank will conduct regular supervision missions as set forth in provisions in force.

Table 5.1
Project Implementation Schedule

<table>
<thead>
<tr>
<th>ACTIVITIES</th>
<th>RESPONSIBILITY</th>
<th>DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project approval by the Board</td>
<td>ADF</td>
<td>To</td>
</tr>
<tr>
<td>Bid and short list approval</td>
<td>ADF</td>
<td>To+03</td>
</tr>
<tr>
<td>Entry into force of loan agreement</td>
<td>ADF/BCEAO</td>
<td>To+03</td>
</tr>
<tr>
<td>Bid invitation</td>
<td>BCEAO/ADF</td>
<td>To+04</td>
</tr>
<tr>
<td>Start of study and training services</td>
<td>Consultants/BCEAO</td>
<td>To+05</td>
</tr>
<tr>
<td>Start of supplies</td>
<td>BCEAO/contractors</td>
<td>To+10</td>
</tr>
<tr>
<td>End of supplies</td>
<td>BCEAO/contractors</td>
<td>To+31</td>
</tr>
<tr>
<td>Submission of project completion report</td>
<td>BCEAO/ADF</td>
<td>To+33</td>
</tr>
</tbody>
</table>

5.4 Procurement Arrangements

The procurement arrangements are summarized in Table 5.2 below. All goods, works and services financed by the ADF will be procured in accordance with ADF rules of procedure for the procurement of goods and works or, as the case may be, ADF rules of procedure for the use of consultants, using the appropriate standard Bank bidding dossiers.

Table 5.2
Procurement Arrangements

<table>
<thead>
<tr>
<th>Category</th>
<th>ICB</th>
<th>LCB</th>
<th>SL</th>
<th>OTHERS</th>
<th>Non-ADF Financing</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. GOODS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 Computer hardware</td>
<td>5.70(3.06)</td>
<td>1.34(1.34)</td>
<td></td>
<td>4.84</td>
<td></td>
<td>10.54(3.06)</td>
</tr>
<tr>
<td>1.2 Radio loop</td>
<td>1.34(1.34)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.34(1.34)</td>
</tr>
<tr>
<td>2. SERVICES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1 Studies</td>
<td>0.45(0.27)</td>
<td>0.89(0.33)</td>
<td></td>
<td>0.89</td>
<td></td>
<td>1.34(0.27)</td>
</tr>
<tr>
<td>2.2 Technical assistance</td>
<td>0.89(0.33)</td>
<td></td>
<td></td>
<td>1.03</td>
<td></td>
<td>1.92(0.33)</td>
</tr>
<tr>
<td>3. OPERATIONS</td>
<td></td>
<td></td>
<td></td>
<td>4.26(1.20)</td>
<td>1.31</td>
<td>5.57(1.20)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>7.04(4.40)</td>
<td>1.34(0.60)</td>
<td>4.26(1.20)</td>
<td>8.07</td>
<td></td>
<td>20.71(6.20)</td>
</tr>
</tbody>
</table>

NB: The short list (SL) applies to the use of consultants for technical assistance and implementation of studies. Figures in parentheses represent the costs funded by the ADF.
Goods

5.4.2 Goods funded by the project include computer hardware and software listed under the RTGS and Compensation components, as well as procurement and installation of radio loop links under the Telecommunications component. Procurement will be by international competitive bidding. Three contracts will be awarded for the procurement of radio loop links (UA 1.34 million), Settlement/Delivery packaged software (UA 2.30 million) and servers (UA 0.76 million).

Services

5.4.3 Consultancy services for the RTGS, Compensation and Electronic Money components will be procured through competitive bidding based on a short list. The services of a consulting agency will be necessary for: (i) conducting additional studies on the electronic cash card; (ii) definition of the transitional plan towards scanned image exchange; (iii) preparation of technical specifications for the card system; and (iv) assistance in putting in place the Settlement/Delivery system. The selection procedure will be based on the technical evaluation of proposals, taking into account the cost of each of the services mentioned.

Contract Award Procedures

5.4.4 The contract award procedures put in place by the BCEAO were reviewed and considered acceptable. The MRSMP will be responsible for awarding the contracts. A Bid Opening Committee will be set up under the oversight of the MRSMP and will comprise the Directorate of Administration, the Directorate of Inspection and the Directorate of Information Technology (for computer hardware). The Committee may induct any other competent resource person. Minutes are submitted to the Director of Projects and Missions Department and approved by the Governor. The MRSMP not only has competent staff but has also acquired procurement experience on World Bank-funded goods and services.

General Information Note

5.4.5 The text of the General Information Note on Procurements shall be approved with the borrower during project negotiations and issued for publication in Development Business and at least one regional journal following loan approval by the Bank Board of Directors.

Review Procedures

5.4.6 The MRSMP shall submit the following documents for Bank review and approval before publication: (a) General Information Note; (b) bidding dossiers for contracting firms and suppliers; (c) letters of invitation to short-listed consultants; (d) reports analyzing bids from contracting firms or suppliers or proposals from consultants, including contract award recommendations; and (e) draft contracts in the event of modifications vis-à-vis those contained in the bid invitation dossiers.

5.5 Disbursement Arrangements

The loan is planned for disbursement over a period not exceeding 30 months from the date of first disbursement. Disbursements on procurement of goods and consultancy services shall be made directly to the suppliers concerned. With regard to training, study and management expenditure funded within the operations framework, disbursements will be made to a special BCEAO account open in accordance with ADF rules of procedure. Expenditures below UA 20 000 shall be made from the special account in line with modalities approved by
the ADF. Requests to refurbish the special account shall be accompanied with an activity programme acceptable to the ADF and an accounting summary justifying the use made of the previous disbursement.

5.6 Follow-up and Evaluation

The MRSP shall submit quarterly project progress reports. The reports shall indicate the physical status of works, problems encountered and solutions suggested. The reports shall also provide the status of project disbursement by component. On project completion, the MRSMP shall submit to the Bank a borrower’s completion report within six months of project completion. Furthermore, the MRSMP shall include in its quarterly reports the minutes of various meetings of the consultative committees and committees of experts.

5.7 Financial and Audit Reports

5.7.1 A financial management system was set up to enable project managers and donors to obtain correct and up-to-date information on resources and expenditure. The system tracks accounting, preparation of financial and audit reports and allows for follow-up of contract awards and project status. A financial management system separate from that of the BCEAO and an accounting manual were taken into account when defining the required project financial management resources.

5.7.2 A multiple currency accounting software has been put in place and allows for the preparation of accounts and reports on the project status by component, sub-component, activity and expenditure category, independent of the origin of funds. The software also comprises a module for budget planning and control, another one for contract monitoring and a third for preparing scheduled reports on project management.

5.7.3 An accounting manual for the project was put together based on BCEAO procedures and guidelines but adapted to the project needs in a way that would offer increased rapidity and flexibility, while respecting internal control regulations. The project was allocated a financial and accounting manager as well as an accounting clerk, under World Bank supervision.

5.7.4 An independent auditor will check the project financial statements yearly at the same time as the BCEAO accounts.

5.8 Assistance Coordination

Coordination with project co-financiers, especially the World Bank, will be permanent. Meetings and consultations were held during the appraisal mission, thanks to which the Bank drew lessons from World Bank experiences and made the best of the complementarity of our project with that Institution’s operation. Plans have been made to maintain such consultation throughout the project’s duration. To that effect, various ADF supervision missions will meet the World Bank’s resident mission. Furthermore, provision has been made to conduct joint supervision missions.

6 PROJECT SUSTAINABILITY AND RISKS

6.1 Recurrent Costs

The banking community was closely involved in preparing this project. The operating cost will be recovered on a pro rata basis as per the volume of transactions. The benefits that the participating banks will draw from the new system should largely compensate the cost. The participating institutions will totally absorb the operating charges resulting from the new systems and, in turn, pass the cost to their customers who use those services. In any case, based
on the informed assessment of experienced operators and the cost of putting in place similar systems, the cost of the new system will be lower than that of the current system of payment.

6.2 Project Sustainability

6.2.1 The key assumption underlying the sustainability of the project’s positive impact concerns the stability of the Union’s macro-economic environment. In that regard, the prospects are reassuring. The BCEAO pursues its contribution to the gradual implementation of several integration programmes, in particular works to consolidate the multilateral economic policy supervision mechanism, with the definition of an operational schedule for implementing the Convergence, Stability, Growth and Solidarity Pact as well as enhanced economic and institutional reforms. Moreover, the willingness of Union member States to pursue and consolidate the unification of their respective national economic spaces has been concretized through: (i) the adoption of the Common External Tariff combined with the free circulation of intra-community products originating from within the Union; (ii) approval of a framework document on the public contracts reform project; and (iii) consultations towards the preparation of a community investment code.

6.2.2 BCEAO’s commitment to and ownership of the project further brighten its sustainability prospects as materialized in the establishment of a standing management structure and the Committee of Experts. The said Committee was called to meet regularly and the parties were systematically represented at a high decision-making level. Permanent dialogue was initiated between the BCEAO Governor, the MRSMP Mission Manager and the managing directors of all banks in the region to win their support for the project. The ministers of finance of member countries were regularly informed of the status of project preparation and gave their full support to the initiative.

6.2.3 At the technical level, the BCEAO staff and commercial banks needed to operate and maintain the system were identified and adequately trained. Each participating institution should ensure that its staff have a full grasp of the new methods and technologies. Within that purview, the project comprises a technical assistance and training component.

6.2.4 Commercial banks participate in funding the project. Their contribution is a part of the investment that they should make in upgrading their own installations to be able to use the new systems of payment. Obviously therefore, it is to the banks’ interest to fund expenditure on the implementation of the real time compensation and settlement systems. Subsequent commercial bank financing will concern the electronic money component which is a basic although not indispensable element to the full implementation of other project components.

6.3 Project Risks

6.3.1 A major project risk involves the lack of commitment of participating banks vis-à-vis the system. During the project preparation and implementation phases, the participating banks actively shared in various meetings of the Electronic Money Interbank Group and the technical sub-committees set up in each country. They showed their commitment to fall back on the Committee of Experts in its capacity as the dialogue and consensus structure. Most of them have already initiated investments to upgrade their infrastructure.

6.3.2 The deterioration of the legal and judicial environment could also push users into doubting the operationality of the new system. In that regard, States are aware of the need to improve the legal and judicial framework in favour of private business. In view of the immediate imperative of adopting the basic texts before putting the project in place, a schedule has already
been drawn up. The respect of the schedule for adopting the community texts and finalizing the conventional component of the compensation system will be a loan condition.

6.3.3 This project is also a novelty in comparison with the existing system of payment. Thus, certain risks might arise with regard to difficulties that operators of the system may have in mastering new methods and technologies. To limit that risk, the project has made provision for significant technical assistance and training for commercial bank and BCEAO staff.

7 PROJECT BENEFITS

7.1 Economic Benefits

7.1.1 It is very difficult to quantify the economic benefits of the project. However, it is estimated that the return on investment generated by the modernization of the system of payment is very high. Indeed: (i) the growth in scriptural money transactions; (ii) the reduction of compensation time from 15 to 2 days for in-area values and from 25 to 3 days for out-of-town values; and (iii) the 25% reduction in the cost of transactions will spin financial and economic benefits for all sectors. In any event, there are considerable macro- and micro-economic benefits in developing an effective system of payment.

7.1.2 Among such are: (i) enhancement of economic activity, especially domestic and international trade, leading to greater regional integration and a gradual movement from the informal to formal economy as financial services become less onerous and more reliable; (ii) improved monetary policy efficiency in view of the fact that the BCEAO’s capacity to control monetary aggregates, adjust reserve needs and efficiently use free market operations depends on a more reliable system of payment; (iii) development of the financial sector, including new instruments related to the financial markets, and promotion of greater competition between financial institutions by offering improved services at lower consumer cost; (iv) more efficient cash management, reduction in the immobilized cash flow and a significant fall in settlement delays by banks and their customers; and (v) reduction of risks to the BCEAO and the financial system thanks to the real time gross settlement procedures.

7.1.3 The design of a modern system of payment should guarantee the lowest possible cost for all parties, subject to the respect of norms of rapidity, integrity, reliability, convenience and security. The three-component strategy (RTGS, Compensation and Electronic Money) proposed is the result of broad negotiations with final users, and was considered the most cost-effective.

7.2 Social Impact

7.2.1 The project will have an indirect positive impact on poverty control. In the absence of sure and effective systems of payment, firms find it difficult to procure raw materials and other supplies, pay staff salaries and receive payment in exchange for goods and services that they supply. Furthermore, funds immobilized within the compensation and settlement systems are not used for more productive purposes. The modernization of the system and means of payment will consolidate efforts by governments to mobilize savings and increase private investment. In the long term that will, among other things, lead to a reduction in unemployment and additional money income distribution. Thus, the project fits into policies and instruments that enhance growth. From that viewpoint, it reinforces those strategies that lead to poverty reduction.
7.2.2 The protection of the system of payment will also permit better use of scriptural money, thus lowering the risks associated with handling high sums of liquidity. In view of their relative importance in the commerce sector, women in the sub-region will significantly benefit from the project fallout. Moreover, should the study on the use of electronic money be conclusive, it will open the way for integrating the underprivileged into the modern economy.

8 CONCLUSIONS AND RECOMMENDATIONS

8.1 Conclusions

8.1.1 The project to reform systems and means of payment in UEMOA countries was prepared and appraised based on a participatory process that associated all parties involved in its implementation. Strong emphasis was laid on: (i) setting up an appropriate legal framework; and (ii) preparation and respect of adequate standards covering all critical aspects of operating the system of payment.

8.1.2 The project is economically viable. The micro- and macro-economic benefits of developing a reliable system of payment are considerable in terms of: (i) promoting economic activity; (ii) improving effective monetary policy; (iii) developing the financial sector; (iv) improving cash flow management; and (v) reducing risks to the BCEAO and the financial system in general.

8.1.3 The project fits into the integration strategy of Union member States. It will contribute to improving the zone’s capital flow, bankarization of the respective economies and trade fluidity. Furthermore, through its objectives of improving financial and monetary management in UEMOA countries, and the scope of its infrastructure component, it synchronizes with the New Partnership for African Development (NEPAD). Above all, it conforms with the Bank’s policy on funding multinational projects since it will have a considerable positive impact on strengthening regional cooperation and economic integration among member countries, even as it will boost their drive towards achieving their common development potential. Lastly, with the implementation of a similar project in Central Africa, a sound foundation would be laid to strengthen the financial systems throughout the CFA zone.

8.2 Recommendations

8.2.1 It is recommended that an ADF loan not exceeding UA 6.20 million be extended to the BCEAO to implement the project described in this report, subject to the conditions set forth in the loan agreement.

A Conditions Precedent to Entry Into Force of the Loan

8.2.2 Entry into force of the loan shall be subject to the Borrower fulfilling the conditions set forth in Section 5.0.1 of the General Conditions.

B Conditions Precedent to First Disbursement

8.2.3 The Fund shall only make the first disbursement of loan resources after the Borrower had, apart from entry into force of the loan agreement, fulfilled the following conditions to the Fund’s satisfaction:

1) Show proof of the UEMOA Council of Ministers adopting: (i) the UEMOA Regulation on Modernization of the System of Payment; (ii) the UEMOA Guideline on Incentive to Use Scriptural Means of Payment; and (iii) UEMOA Guideline on Control of Money Laundering in Member States (paragraphs 4.1.7 and 6.3.3);
2) Show proof of opening a special account into which funds to finance the project set up and training charges will be paid (paragraph 5.5.1).

C Other Conditions

Furthermore, the Borrower shall:

1) Ensure that UEMOA member States abrogate, latest 31 March 2003, provisions of the law on instruments of payment, excluding those containing penal sanctions (paragraphs 4.1.5 and 4.1.6);

2) Have the competent authorities in UEMOA member States adopt the Guideline on Incentive to Use Scriptural Means of Payment not later than 31 January 2003 (paragraphs 4.1.5 and 4.1.7);

3) Have the competent authorities of UEMOA member States adopt the Guideline on Control of Money Laundering in UEMOA member States not later than 31 January 2003 (paragraph 4.1.7);

4) Show proof of signature of the compensation agreement by the parties concerned not later than 31 March 2003 (paragraph 4.1.7).
This map has been drawn exclusively for the use of the readers of the report to which it is attached. The names used and the borders shown do not imply on the part of the Bank Group and its members any judgment concerning the legal status of a territory or any approval or acceptance of these borders.
BCEAO
PROJECT TO REFORM SYSTEMS AND MEANS OF PAYMENT
IN UEMOA COUNTRIES

DETAILED PROJECT DESCRIPTION

1. Component: Real Time Gross Settlement System

The key objectives of the sub-regional RTGS system are to:

- Reduce the risks related to high amount operations or urgent payments likely to create a systemic risk associated with the fact that the failure of a participant could create a domino effect on others (for instance, in the absence of the RTGS, the settlement might occur at the end of the day, calling into question the day’s total operations and thus creating a systemic risk);

- Ensure the rapidity, finalization and security of fund transfers especially at the sub-regional level, in line with the basic principles of BIS recommendations;

- Promote the development of financial markets in the sub-region.

Thanks to procedures put in place under the RTGS, high amount or sensitive and urgent payments on behalf of customers or between banks (especially those concerning financial markets, monetary policy operations, settlement of high volume payment operations compensation systems) are made in real time through the simultaneous debiting and crediting of settlement participants’ accounts kept with the BCEAO.

The RTGS system is lodged at the BCEAO headquarters (with a back-up site), while technical platforms (software and hardware) are installed in the headquarters of each participant. The system includes the following modules: transaction control operations, management of settlement accounts, queue management, exchange of information between participants and intra-daily liquidity management. The RTGS system provides for three types of participation:

- **Direct participants** who have installed the said platform within their establishment and communicate directly and in real time with the RTGS system;

- **Indirect participants** who have not installed a platform within their establishment and use the technical platform installed within the main agency of the BCEAO in each country (or the technical platform of another direct participant);

- **Sub-participants** who authorize other directly (or indirectly) participating establishment to conduct operations on their behalf. In such a case, the sub-participant has no account to settle but is represented by the direct (or indirect) participant who bears the financial and liquidity risk associated with those operations.

The RTGS system architecture comprises three levels:
- A technical access platform to the RTGS system set up at the headquarters of each direct participant or, for indirect participants and BCEAO departments, at the BCEAO agencies or headquarters. Provision has been made for about 50 access points;

- A connection and transfer system between the platform and the central RTGS system;

- The central system (heart of the RTGS) principally comprising modules for processing control, liquidity management, queue management and settlement operations, and exchanging information with participants.

Financial institutions in their capacity as direct participants are responsible for the material platform necessary for installing access software to the RTGS (supplied during delivery of the turnkey system) and bear the platform installation cost. The billing structure for services provided by the BCEAO (responsible for running the RTGS system) will vary, depending on the type of participation and volume of operations.

2. Component: Compensation System

The main objectives of the Compensation System are to:

- Reduce the timeframe for exchanging and settling paper values (domestic and between UEMOA countries). When transactions involved are “out-of-town”, the timeframe should reduce from several weeks to a few days at most;

- Reduce the risks and costs related to such delays and the manual handling and transport of values;

- Promote and permit the development and automatic processing of new electronic instruments of payment;

- Reduce the cash flow needs required for compensation operations by centralizing the accounts of financial establishments kept by the BCEAO at the national level (thus ending the imperative, for compensation operations, to maintain correspondent accounts with positive balances in auxiliary agencies);

The principles of the new compensation system are as follows:

- Each establishment presents payment transactions to compensate (checks, bill transactions, transfers, deductions, card movements, etc.);

- With regard to paper values (checks and bill transactions), a scanned image is associated with the compensation data in order to facilitate necessary control by the drawer bank (especially signature control), thanks to that image transfer;

- These electronic files are transmitted (by electronic transfer or on diskette) to the nearest BCEAO access point (auxiliary or main agency);

- The access point transfers these files to the National Compensation System installed in the main agency (one per country);

- Following reception of the files, at a fixed time, an electronic compensation “session” is conducted at the national level to calculate the compensation balance of each participant, the dates of various values for charging the accounts according to
transaction category (e.g. D for “local”, J+1 for “out-of-town”, J+3 for “cross-border”). The dates will be set and reduced as technical improvements are made within financial institutions;

- Each participant is informed about the resulting general balance and must ensure that its BCEAO account balance, if in debit, is enough to cover allocations to these balances during settlement about an hour later, in the RTGS system;

- Where available funds are insufficient, the total compensation is temporarily rejected or the chamber participants will apply the relevant rules (coverage, new liquidity, guarantees, etc.) to ensure that the balance is covered and the compensation made during a second presentation for RTGS settlement;

- Following compensation (or before, as information), the drawn establishments receive all files concerning them (compensation data and images) to be able to control transactions with a view to accepting or rejecting them;

- Transactions rejected are presented again for a compensation session within a time frame to be decided, depending on the quality and rapidity of paper value image transfer and processing by the drawn bank.

For archival purposes and proof in the event of subsequent contention by a customer, paper values are forwarded independent of the electronic values, through appropriate circuits from the drawer bank to the drawn counterpart. An exchange window (simple post-box) is put at the disposal of remitters and beneficiaries in the BCEAO’s auxiliary or main agencies.

3. Component: Interbank Card System

The main objectives of setting up an interbank card system within the UEMOA are to:

- Strengthen the consistency and image of the region’s financial sector by creating a UEMOA trademark (logo) printed on cards and objects of common promotion;

- Promote the use of electronic means of payment to replace fiduciary payments;

- Strengthen the position and negotiation capacity of the region’s card issuers vis-à-vis the international card networks (VISA, MASTERCARD, etc.);

- Reduce the commission and cost of processing transactions (purchase, transfer, authorization, settlement) by optimizing the necessary technical infrastructure (hardware, networks and software) for the benefit of the sub-region’s financial establishments;

- Control risks (especially fraud and counterfeiting) related to electronic payments.

Given the commercial objectives of the Card component, investments will be principally funded by private banks. In the long term, the success or failure of the component will largely depend on efforts that such banks will make to promote the facility.

4. Component: Telecommunications System

The effective set up of the three systems mentioned (RTGS, Compensation, Electronic Money) depends on a sound and efficient regional telecommunications network.
The Telecommunications System Component comprises two sub-components:

- The “dorsal” sub-regional network which will be based on the existing private VSAT network; and
- An inter-bank network in each capital connected to the sub-regional network.

The Sub-Regional Satellite Network (“the dorsal network”)

The set objectives of setting up the sub-regional network are to:

- Strengthen the capacity within the BCEAO internal network to cope with the inter-country traffic that will be generated following the set up of the new systems of payment;
- Take into account the need for banking sector operators to have a sub-regional tele-teaching network that would provide them with effective backup when using the new systems.

To interconnect its 25 sites, the BCEAO put in place a US $ 2 900 000 private VSAT satellite telecommunications network from the American firm and market leader, Hughes Network Systems following international competitive bidding. The network configuration uses the star topology, with a central node or hub installed within the BCEAO headquarters and equipped with a 7.3 meter antenna and VSAT stations on remote sites. This architecture facilitates centralized administration with the hub playing the role of configuring, controlling and monitoring network activity.

The National Interbank Network

Each capital of the Union will install a local radio loop for national interbank exchange. All headquarters of participating banks and financial establishments will be linked to the main BCEAO agency in the country concerned. The local radio loop offers decisive advantages,
including flexibility, deployment and maintenance ease, and very competitive running costs. Indeed, the star architecture only requires the installation of an omni-directional antenna at the main office and uni-directional antennas at the headquarters of banks for high flows. For the “sub-regional network” component, the increase in flows will necessitate extension cards and additional hardware from the same supplier. Local radio loop hardware will be subject to international competitive bidding.

5. Component: Project Management

Project management not only includes oversight and steering, but also activities in connection with contract award, training, adaptation of the regulatory and legal framework and user surveys. Provision has been made to, as much as possible, use the services of local and international consultants to assist the project team. There are also plans to conduct a feasibility study on the use of electronic money in the form of smart cards for small-sum payments especially by the underprivileged. This technology could be the means of extending the use of fiduciary payments to those currently without bank accounts.
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PROJECT TO REFORM SYSTEMS AND MEANS OF PAYMENT
IN UEMOA COUNTRIES

Project Organization
BCEAO
PROJECT TO REFORM SYSTEMS AND MEANS OF PAYMENT
IN UEMOA COUNTRIES

IMPLEMENTATION SCHEDULE

<table>
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<th>ID</th>
<th>Task Name</th>
<th>2003</th>
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<td>1</td>
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<td>Loan Effectiveness</td>
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<td>Award Process</td>
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<td>Set up of Settlement/Delivery System</td>
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<td>13</td>
<td>Submission of Project Completion Report</td>
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TERMS OF REFERENCE OF THE ELECTRONIC MONEY EXPERT

1) AIM

Within the framework of takeoff of the interbank electronic money system in UEMOA and UMOA countries and specifically with a view to setting up a sub-regional Electronic Money Processing Center (Center de Traitement Monétique, CTM), the Central Bank of West African States (BCEAO) plans to use the services of a qualified Consultant. Within the MRSMP, the Consultant will work under the supervision of the Mission Manager and in close collaboration with the “Electronic Money” Project Manager.

2) CONSULTANT’S PROFILE

Specialist in the operational aspects of electronic money, the Consultant shall:

i) Have cognate experience in running an interbank electronic money system, particularly in setting up an Electronic Money Processing Center;

ii) Have effectively participated in similar projects, especially in preparing, inviting and opening bids for the set up of an interbank card payment system, and selection of suppliers within the international competitive bidding framework;

iii) Have French as working language or be bilingual (French/English).

iv) Show demonstrable aptitude with regard to organization, writing and communication. He should be an acknowledged expert in offering guidance within the framework of establishing an Electronic Money Processing Center.

3) CONTRACT DURATION

The duration is set at 3.5 months. The mission will be conducted in six (6) phases, mostly at the BCEAO headquarters in Dakar (Senegal). Some days will be spent in the consulting firm.

4) CONSULTANT’S RESPONSIBILITIES

The Consultant will assist the BCEAO in setting up an Electronic Money Processing Center and preparing the related detailed technical specifications and bidding documents. In that regard, the Consultant will work closely with the “Electronic Money” project manager and commercial banks. Works set up within that framework and under the MRSMP’s oversight will be based on reports and studies prepared by previous consultants.
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PROJECT TO REFORM SYSTEMS AND MEANS OF PAYMENT
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LIST OF PROJECT DOCUMENTS

- Exchange formats with the high volume payment compensation system
- Status of implementation of the systems and means of payment reform project
- Survey of users of systems and means of payment in UEMOA countries
- Design of a modern system of payment in UEMOA countries – final report, February 2000
- MRSMP information bulletin
- Section IX – technical specifications of the high volume payment compensation system
- Section IX – technical specifications of the Real Time Gross Settlement system
- Electronic Cash Card feasibility study – final report
- Project presentation
- Telecommunications study – search for solutions (detailed comparative report on possible solutions)
- Project status of implementation and reform of systems and means of payment
- Survey of users of systems and means of payment in UEMOA countries
- Contract award methods for the MRSMP project
- Summary of the legal and regulatory framework of the system of payment reform in UEMOA member States
- Development Credit Agreement (IDA - BCEAO)
- Project’s participatory approach
- MRSMP project estimated implementation plan